

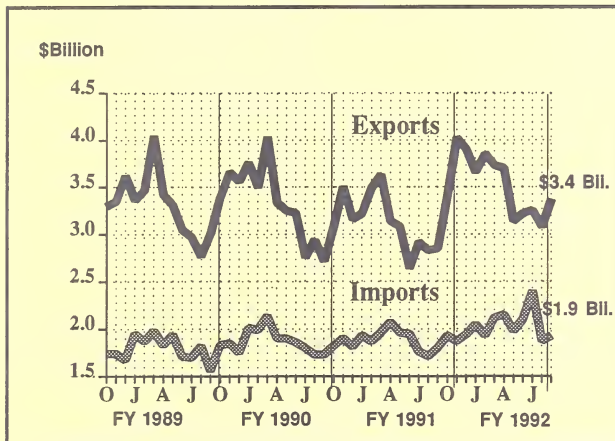
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AGRICULTURAL TRADE HIGHLIGHTS

September Exports Up Sharply

Fiscal 1992 Closes at Near Record \$42.3 Billion



September trade statistics released on November 18 by the Commerce Department placed the value of U.S. agricultural exports at \$3.37 billion, up 18 percent from the same month last year. Sharply higher shipments of soybeans, wheat, coarse grains, cotton, feeds and fodders, animal fats, and consumer-oriented high-value products accounted for most of the gain.

September's results bring fiscal 1992 to a close. For the year, exports totaled \$42.3 billion, up 13 percent from fiscal 1991 and exceeded the Department's 1992 forecast by \$800 million. This makes 1992 the second highest export year on record exceeded only by 1981's \$43.8 billion.

At \$19.6 billion, bulk sales in fiscal 1992 increased \$2 billion from 1991. Higher shipments of wheat, soybeans, and peanuts well more than offset declines in sales of cotton and pulses. Exports of coarse grains, tobacco, and rice were roughly unchanged from last year.

U.S. exports of intermediate products reached a record \$9.2 billion for the fiscal year, finishing \$745 million above 1991 levels. Gains were registered in shipments of soybean oil, other vegetable oils, soybean meal, animal fats, feeds and fodders, planting seeds, and live animals. Of these, feeds and fodders, planting seeds and live animals reached new all-time highs.

At \$13.5 billion, U.S. exports of consumer-oriented products reached a new all-time high, rising 18 percent, or \$2.1 billion, in 1992. These products now account for 32 percent of all U.S. agricultural exports (up from 30 percent in 1991 and 24 percent in 1990). Increases in fiscal 1992 were broad-based with 14 of the 16 product categories setting all-time records. The top selling items this year were registered red meats (\$3 billion), fresh fruits (\$1.7 billion), processed fruits and vegetables (\$1.5 billion), tree nuts (\$945 million) and poultry meat (\$915 million).

Performance with the top 10 U.S. trading partners showed significant gains across the board. Sales to Japan, Canada, Mexico, Taiwan, and Hong Kong all set record highs. Strong growth was also posted on shipments to the former Soviet Union and the EC.

U.S. agricultural imports for fiscal 1992 reached a record \$24.3 billion, up nearly 10 percent from 1991. Higher sales of tobacco and fruit and vegetable products accounted for most of the gain. Due to strong exports, the 1992 U.S. agricultural trade surplus widened by more than \$3 billion from last year to \$18 billion.

On December 2, the World Agricultural Outlook Board released its fiscal 1993 projections for U.S. agricultural trade. Exports are forecast to total \$41.5 billion, down 2 percent from 1992. Export volume is expected to remain roughly unchanged at 144 million tons. Most of the expected value decline is due to lower prices for soybeans and corn, and reduced cotton exports. This will more than offset another record year in sales of horticultural and livestock products.

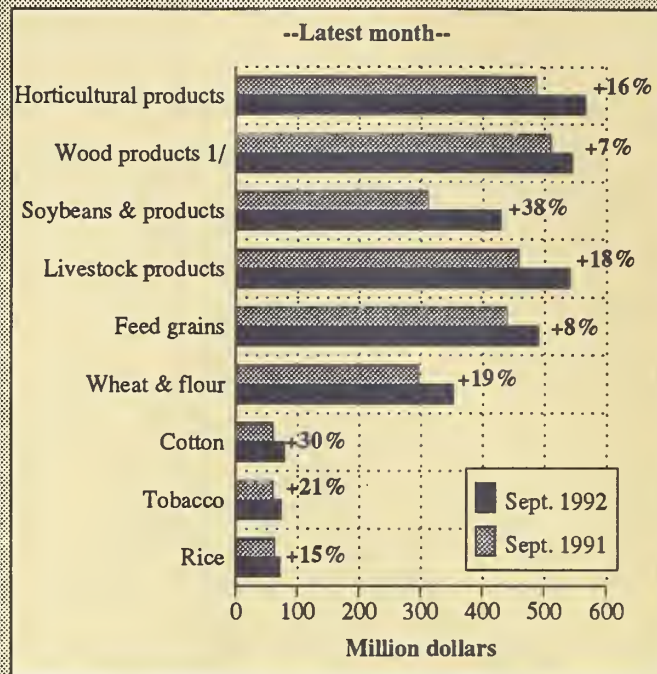
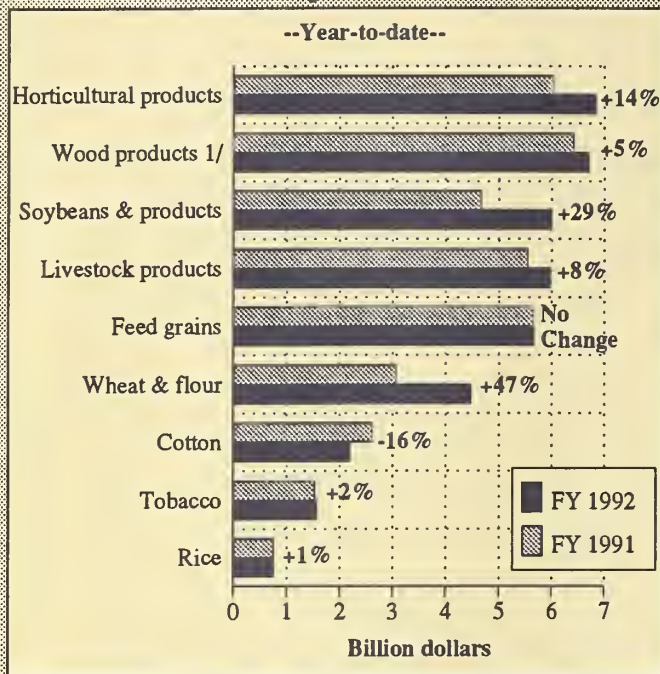
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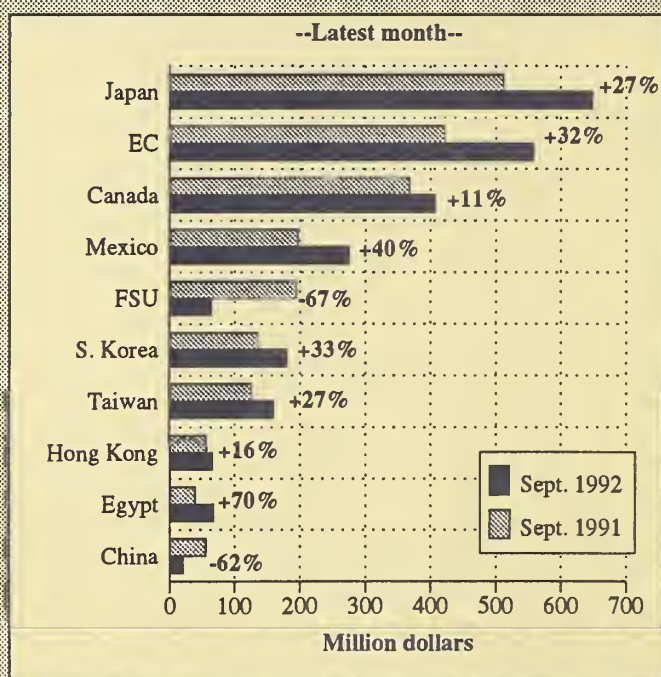
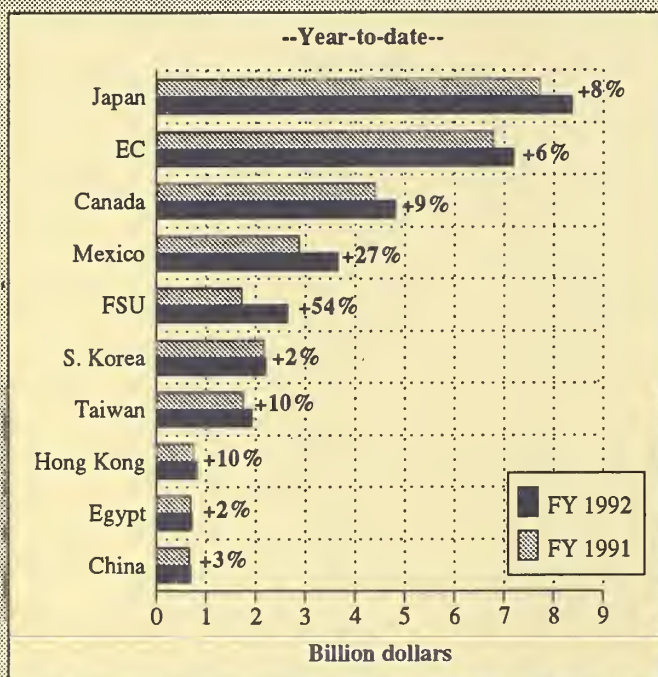
U.S. Agricultural Export Summaries

October-September and Latest Month Comparisons

Product Summary



Top Ten Markets Summary



Note: Percentages are computed as the change from a year ago.

1/ Not included in agricultural totals.

Commodity Highlights

Led by strong gains in wheat and high-value products, such as fruit and vegetable products and meat, fiscal 1992 U.S. agricultural exports were the second highest ever at \$42.3 billion. While the forecast for fiscal 1993 shows continued strong high-value sales, declines in corn, cotton, and soybean exports are expected to more than offset these gains, with total agricultural exports projected to fall to \$41.5 billion. This month, *Commodity Highlights* reviews the fiscal 1993 forecast, just released by the World Agricultural Outlook Board

The fiscal year 1993 forecast for U.S. wheat and flour exports is 34.5 million tons, marginally lower than the 35 million tons shipped in fiscal 1992. However, total value is forecast to rise slightly to \$4.5 billion, due to higher expected prices in 1993.

U.S. exports of coarse grains are expected to reach 51.5 million tons, up from 50.2 million in fiscal 1992. However, export value should decline almost \$500 million to \$5.2 billion due to lower expected prices. The record U.S. crop, a forecast 18 million ton rise in global coarse grain stocks, and a more than doubling of U.S. corn stocks are expected to sharply reduce U.S. corn prices.

The forecast for rice exports in fiscal 1993 is unchanged from sales in fiscal 1992 at 2.3 million tons. However, lower prices are expected to reduce the value of exports to \$700 million.

The outlook for exports of oilseeds and products is down 4 percent from actual fiscal 1992 sales to \$7.1 billion, and 2 percent lower by volume to 28.3 million tons. Soybean exports are forecast to drop more than \$200 million to \$4.1 billion, on lower prices but virtually unchanged volume. The expected drop in unit export price reflects growing U.S. stocks coupled with weak foreign meal demand.

Cotton exports are projected to ease to \$1.8 billion from \$2.2 billion in fiscal 1992. Volume is also expected to decline to 1.3 million tons from over 1.5 million last year. The fiscal 1993 forecast reflects sluggish world demand along with uncertain export prospects from major competitors such

as China and the former USSR, whose production forecasts have been reduced, but whose export forecasts have been raised.

Exports of unmanufactured tobacco are expected to remain about the same as last year at \$1.6 billion. Demand has remained strong for leaf exports in traditional U.S. markets in Asia and Europe.

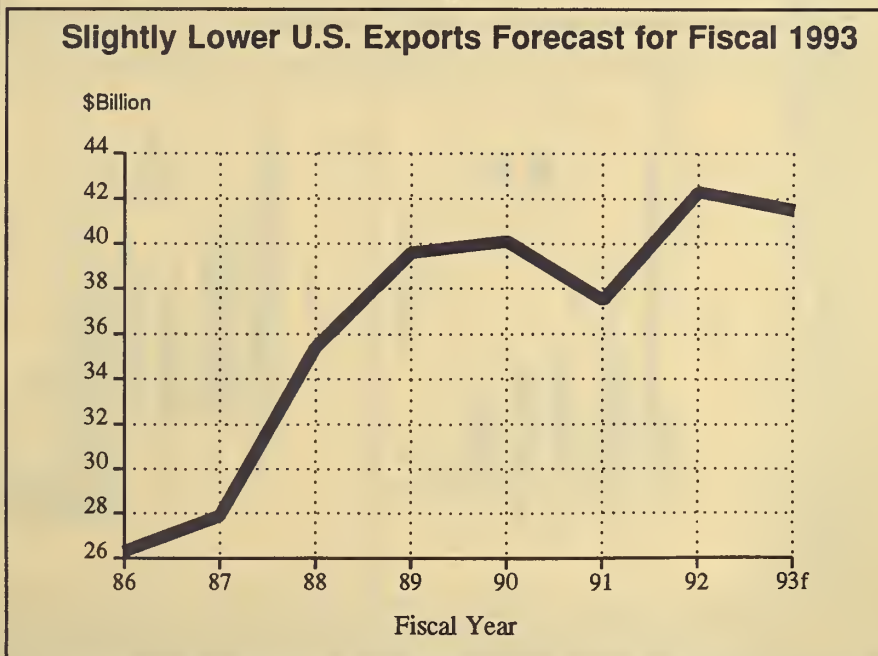
The fiscal 1993 export forecast for livestock, poultry, and dairy is up almost \$350 million from record fiscal 1992 levels to \$8.1 billion. Most of the expected gain is from beef and veal exports to Japan and Korea. Recently instituted Mexican tariffs on imported beef are expected to temper but not halt recent export growth

while live cattle exports to Canada are expected to decline. Poultry exports should increase about 5 percent to \$1.3 billion. Most of this gain is in sales of turkey and broiler parts to Mexico, Korea and Hong Kong, as well as \$30 million in GSM-102 credits to Russia.

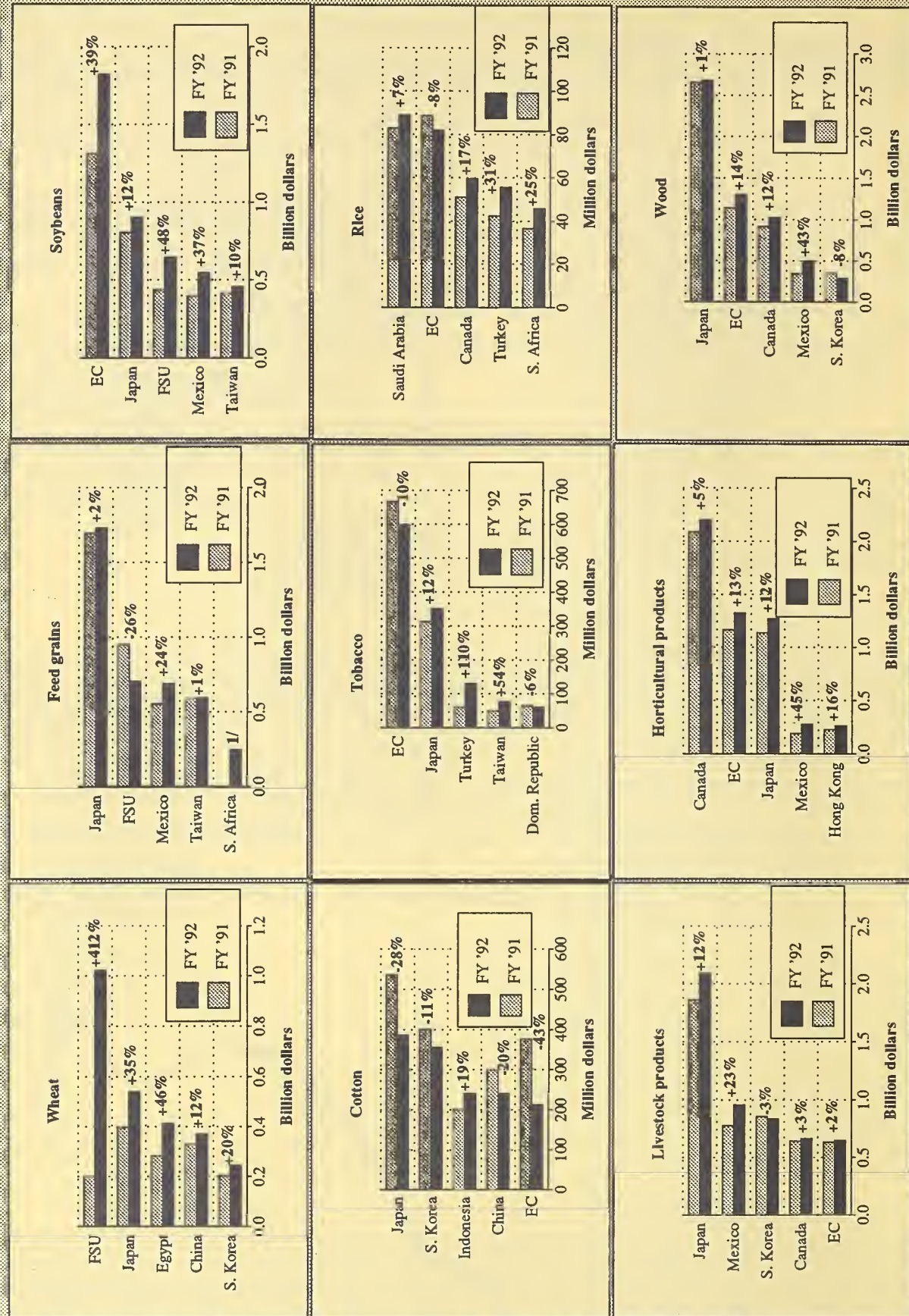
Horticultural exports are expected to reach another record in fiscal 1993, rising 5 percent from last year to \$7.2 billion. Continued market liberalization in many importing countries as well as strong demand in Mexico, Canada, Japan and the EC are forecast to more than offset the effects of higher foreign production.

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Slightly Lower U.S. Exports Forecast for Fiscal 1993



Top Five Markets for Major U.S. Commodities



Note: Percentages are computed as the change from fiscal 1991 to fiscal 1992 cumulative totals.
 1/ Negligible exports reported during comparable period last year.

Country Spotlight: Argentina



No one is crying for Argentina anymore. With a newly liberalized trade regime in which import duties were dropped dramatically, a stabilized currency, inflation on the ropes and an expanding GNP, Buenos Aires and other urban centers are experiencing a feeding frenzy. 1992 will likely ring up three times the sales of 1990. Since FY 1991, nearly 51 percent of the expansion of the South American market is tied to Argentina. The increasingly prosperous economic conditions there enabled U.S. agricultural exports to rebound strongly, setting record levels in a variety of products.

Although the pace of the boom may not be sustainable due to recently increased import tariffs, we nevertheless look to Argentina as a growth market for American products. During this global recession when firms are on the lookout for new customers, and import markets are beginning to open up all over Latin America, Argentina is cer-

tainly a market that should not be overlooked by American exporters.

Firms should note that FY 1991 exports outpaced the prior year by 39 percent, and FY 1992 finished 209 percent ahead of year-earlier levels. With annual economic growth projected at 4 to 7 percent over the next half decade, this banner year may be merely the advance guard of several highly profitable seasons.

Fundamental Changes Bring an Economic Turnaround

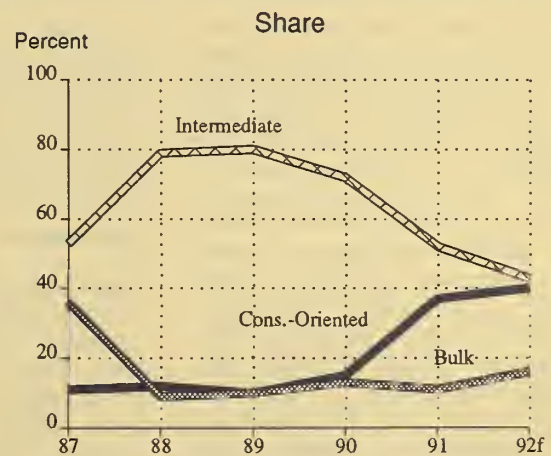
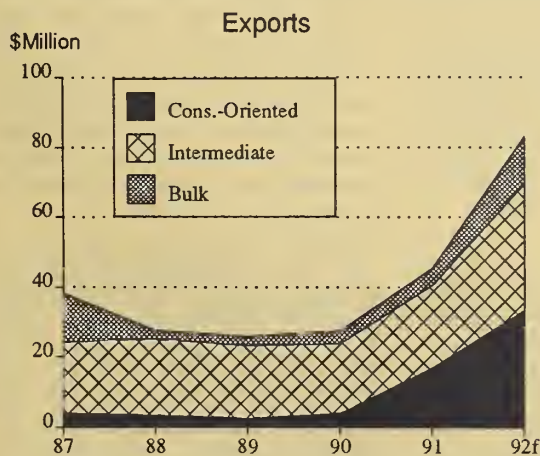
After a decade of stagnation and inflation in the 1980's -- Latin America's "lost decade" -- reforms came fast and strong. President Carlos Menem instituted an ambitious "Autumn Plan" in April 1991, bringing liberalized trade and a more deregulated, privatized economy. Public sector reform and reduced import tariffs among other initiatives yielded a more stable economy with inflation below 20 percent. Wages have been decoupled from inflation, thus breaking the wage-price spiral. Capital is beginning to return, attracted by higher interest rates and the promise of growth. Market forces, rather than trade barriers, now increasingly set prices.

Due to lower import tariffs and the elimination of non-tariff restrictions,

one-third of the items imported today couldn't be brought in three years ago. As an international business manager of a breakfast cereals firm remarked, "Before, imports were the exceptions. Now everything is permitted." Argentina is different from nearby nations, abandoning the failed import substitution policies, according to an American manager who experienced steady growth in beer sales. "Things are moving around. It is not a stagnant scene. You don't see that in the streets of other South American countries. People are out, in the restaurants, in the shops. When you see that you know they have money and you know they are going to have a certain amount of economic activity." He intends to direct more product promotions to Argentina as a growing market, "a small one but one that could be big [in profit potential]."

Besides the revitalized economy and a somewhat overvalued currency, several factors have made imports competitive. In the first place, import tariffs were sharply lowered and then more recently hiked up. Product specific import duties range from 2.5 to 20 percent in the new tariff structure. An accompanying statistical duty was set at 10 percent in October in response to threats of a strike by the country's farmers. Secondly, histori-

Rising Agricultural Exports to Argentina Led By Consumer-Oriented Products



Argentina Takes Steps to Ensure Continued Economic Growth

The Government of Argentina is implementing structural reforms to enhance its industrial competitiveness and attractiveness to investors to improve the prospects for long-term growth. It continues the privatization program for the purpose of raising cash, reducing debt, and freeing the public sector from running selected enterprises. Deregulation, efforts to lower input costs, and lower export taxes are aimed at cutting Argentine costs. It is hoped reform of the social security and tax systems will help improve public finances and will create a large pool of funds to encourage the development of the domestic financial market.

The country faces several challenges in meeting its economic expectations. Investment and economic reforms must be maintained. Argentina will need to maintain a favorable relationship with the International Monetary Fund (IMF) to encourage investment and capital flows. Controlling inflation and the public-sector deficit are important to the IMF and to consumer and investor confidence. The creation of Mercosur (a common market among Argentina, Brazil, Paraguay, and Uruguay) will test the Argentine industry's ability to compete. In addition, the Government will need to address the real appreciation of the currency.

Growing levels of reserves reflect the country's much improved financial situation. According to IMF statistics, international reserves reached \$6.6 billion (more than 4 months worth of imports) at the end of 1991. The level of reserves at the end of 1991 was \$2 billion higher than at the end of 1990. Strong capital inflows, further increases in unpaid interest due to foreign banks, and a rescheduling of debt owed to nations within the Paris Club contributed to the larger reserves.

Argentina continues to negotiate reductions in its debt service burden. The latest, and largest agreement is the Brady Plan debt rescheduling. The agreement would allow banks to convert \$23 billion of loans into bonds at par or into bonds at a 35-percent discount. Late payments on debt owed to banks would be cleared under the plan. Completion of the deal would provide debt relief on approximately one-third of Argentina's total foreign debt and would add to the relief provided by the Paris Club reschedulings in 1991 and 1992.

cally high inflation and lack of investment incentives have kept development of a domestic food processing industry relatively low to date, reinforcing existing high costs of some local food. One cost component, inland freight charges, is among the highest in the world on a per-mile basis, although transportation reform may improve this ranking. New agricultural sector investment continues to be slow to develop, perhaps due to a wait-and-see attitude following government deregulation. Thirdly, imported products are fashionable and enjoy a reputation of superior quality, drawing increased visibility in both small and large retail stores. This trend widens the opportunity for for-

eign companies to introduce a variety of products which were previously unavailable and for which there is pent-up demand. If customers can be attracted to American foodstuffs now, we can expect them to ride along with the rising income elevator.

U.S. Market Position

To date, the U.S. is still in the minor leagues when measured against Argentina's total food import bill. In 1991, American producers garnered only 9 percent of Argentina's total imports. Paraguay and Brazil, her biggest suppliers, enjoy competitive advantages due to proximity and further advantages are expected from an eventual free trade agreement, known as

Mercosur, being negotiated between Argentina, Brazil, Uruguay and Paraguay. These countries plus Chile and Ecuador compose the U.S.'s major competitors in agricultural products as a whole.

Argentina, which possesses a climate and latitude similar to the U.S., is one of the Southern Cone's major beef, grain and soybean producers and exporters. Thus, bulk sales from the U.S. have historically been insignificant, amounting to only \$12.4 million in 1992. Cottonseeds make up the largest portion of bulk sales, and almost entirely account for the 123 percent jump in bulk shipments during the first eight months of 1992 versus year ago levels. Intermediate products which hit a record \$33.6 million in FY 1992, have gained market share steadily since 1986, presently reaching almost one-third of imports. Planting seeds have traditionally been the forte in this category (\$14.1 million for FY 1992). Animal fats have also hit a all-time high at \$4.8 million.

Bringing the update on intermediate products full circle, the Palermo show is the primary trade show concentrating on livestock. It receives heavy visitor traffic from all over South America, presenting a good forum for strengthening U.S. producers' hand in bull semen, live animals for breeding and planting seeds. The uptake in interest in American genetics for improving dairy herds is not only palpable but also widely distributed among larger and smaller dairy farms. However, competition in these three markets from third country suppliers is growing and well received. In particular, Canada, Australia and New Zealand all have aggressive export programs.

While U.S. consumer ready food exports are up a whopping 245 percent in twelve months, and are forecasted to reach \$37 million this calendar year, the U.S. piece of the consumer-oriented pie in 1990 was just 4 percent. This pie has the strongest potential for expanded American sales, in parallel with the buoyancy of overall economic conditions. "Now is an excellent time to get your foot in the

....Argentina

door," advised the International Business Manager of a diversified U.S. food company. Another American marketing executive of pet food and candy noted, "We see Argentina as the biggest opportunity in the area." The fact that many consumer food products rocketed to record levels underscores the attractiveness. Among the items setting all-time highs were snack foods (including potato chips and chocolate products), prepared breakfast cereals, fresh/chilled red meats, prepared red meats, dairy products, fruit and vegetable juices, tree nuts, wine and beer, nursery products and cut flowers, and pet foods. With rising numbers of modern supermarkets, processed foods take up a growing share of the shopper's basket, explaining huge leaps of more than 100 percent in three-fourths of all high-value, highly processed categories of American imports.

Frozen food sales have increased, although many middle-income Argentines still lack adequate refrigerator and freezer space, and microwave ovens are a luxury. Canned items are limited and poor in quality due to high metal costs and full-year availability of fresh produce. Ready to eat products such as desert mixes are few in number but are growing in popularity.

In-country agribusinesses satisfy most meat demands of Argentines, who remain the highest per capita beef consumers in the world despite rising prices. Locally raised product outcompetes U.S. prime cuts strictly in terms of cultural preference. Nevertheless, the year-to-date's record setting exports of fresh and frozen red meats due partly to sizzling local demand for offals. Additionally, the 432 percent improvement in prepared meat sales, an all-time high, is evidence of increasing competitiveness of U.S.-produced prepared pork and sausages. Sources also note poultry has made steady progress against beef in recent years though the U.S. hasn't benefited from the trend, and there is a marginal shift away from beef to lower priced substitutes such as pasta, rice and pulses.

Marketing Funds to Leverage an Entry Strategy

To assist U.S. companies actively exploring the Argentine market, FAS administers a pool of funds under the Market Promotion Program (MPP) -- a program which enables participants to undertake short-term market research and market development. A similar program aimed at longer term trade assistance under the Foreign Market Development (FMD) effort also assists U.S. cooperators. Monies are distributed to industry cooperators for both branded and generic product promotion. Since FY 1990, the total value of MPP and FMD funds have risen from \$29,000 to \$358,000, reflecting the private sector's more upbeat assessment of Argentina's market potential. The major products receiving support include:

- * soup
- * fruit & vegetable juices
- * beer
- * bull semen
- * live animals (breeding stock)
- * seeds

Separate from these programs is an Export Credit Guarantee program which guarantees commercial credits extended to finance sales. The USDA will consider providing a guarantee allocation for any U.S.-produced agricultural product destined for overseas. For 1992, Argentina had a \$2 million allocation under the GSM-103 credit program.

Concentrated Urban Purchasers Go Beyond Staples

Argentina's demographic profile is driving the increased consumption of varied foods. Although 33 million consumers make for a smaller market than Brazil, on a per capita basis Argentines spend the equivalent of \$1,345 annually on food purchases compared with \$320 for Brazilians. Despite roughly equivalent GNP per capita, a less pronounced income skew among Argentines means that a larger proportion are middle class who participate in the consumer market. Their diet goes beyond the staples of bread or potatoes and meat; they want greater variety and additional flavors and are willing to pay for them. When listing expanding U.S. export markets, perhaps Argentina should be mentioned in the same breath as successful, reform-minded Chile. However, Argentina is more populous, slightly better educated, and more metropolitan. Argentina has 95 percent literacy. Ninety-two percent of the populace dwells in urban areas, and 20 percent of the women are employed. (Unofficial estimates put the latter closer to 60 percent.) In Buenos Aires, where one-third of the citizenry lives, most

women work. This concentration of urban purchasing power combined with a radical restructuring of the retail marketing system makes an ideal setting for branded product promotions.

Supermarkets Aggressively Take Control

An estimated \$6 billion in food products were sold through 110,000 food outlets throughout Argentina in 1990. With substantial foreign investment in supermarkets during the last decade, there are now huge chains of American, French, Brazilian, Chilean and Argentine supermarkets, creating a retail system more similar to our own. Supermarkets' aggressive grab has been at the expense of mom-and-pop stores. They have increased in number sixfold since 1973 and now corner 56 percent of total retail sales.

A series of large modern shopping centers were built in upper/upper middle income areas. Commercial centers include modern retail food stores and fast-food restaurants such as McDonalds, Burger King, Fuddrucker's, Pizza Hut and Pumper Nics, a local hamburger chain. A French firm developed retail hypermarkets which carry

From Soup to Juice: A Focused Effort Pays Off in a Big Way

One of the success stories ignited by MPP funding has been the experience of Campbell Soup Co. As Joanna Savvides, Export Services Manager explained, they hadn't exported their product to Argentina until this year. "It wasn't worth trying. But with the tariff reduction and the general condition of the peso, we reconsidered our export policy." Since last summer, Campbell's undertook a focused marketing effort and it paid off in a big way. Using \$100,000 of MPP funds provided through the Southern U.S. Trade Association (SUSTA), Campbell's used the funds creatively to spearhead marketing. "I think we did it right because we didn't just dump our product there. We performed market research so the soups had the right labels, and they were the right varieties of soup." Rather than formulating new product, they screened 25 varieties and ultimately chose 9 to introduce. They entered the market in March of 1992, and in just three months, they sold their estimated volume for the entire year.

Ms. Savvides credits the focused marketing effort as one critical factor in achieving rapid sales. "Argentina was our first country where we had a focused effort rather than a hodge-podge through a distributor." Argentine dry soup producers were the major competition. As very large concerns, they advertised heavily. In addition, demographic trends much like our own connected a demand for cooking soups to urban working women, who place a high premium on time savings. Yet there was no wet product on grocery shelves.

Utilizing a wholly-owned subsidiary as the in-country distributor, Campbell's soups were differentiated based upon a few key points. The homemade taste coming from a higher quality product was the crux of the campaign. Small cookbooks instructing how to use the soups were also included in the packaging. Their strategy for catering to an unfilled niche worked brilliantly.

a wide range of food and non-food items in several shopping centers. They appear to be thriving, coming a decade or so after several disappointing U.S. sponsored ventures.

Argentine Distributors Seek U.S. Products

With sales through self-service retail food stores rising, U.S. exporters are well poised to capture market share in processed food not only because their full line of consistently high quality product offerings can outmuscle most Argentine firms' smaller palette of choice, but also because the customers are highly receptive to "Buy American" promotions.

Argentines, who usually possess Italian, Spanish and German backgrounds, may think Europe before they think America. But things are beginning to change. Each year 100,000 Argentine tourists visit America and return with positive im-

pressions of our smorgasbord of food preparations. Thus Argentine distributors with their ear to the ground sensed the nascent market for American processed food and, according to a telephone survey of large and mid-size U.S. agribusinesses, they have been aggressively canvassing for sources in this country in recent months, contacting firms with sales of \$100 million and up. For example, Argentine brokers made the initial contacts placing American beer and corn chips in supermarkets. As an indication of the lure of American items, another importer retained the English labelling as their major selling point.

Including required government product registration, American exporters' experience is that time elapsed between market research and putting goods on shelves may be no more than three to six months. One exporter offered that going through the international department of their com-

mercial bank saved money and time. "You can spend hundreds of thousands of dollars to find out if you should go into the market, and you are no better off than talking to the bankers down there, who know if they [the consumers] have the money."

A full range of marketing tools are employed -- television, point-of-sale, consumer sampling, trade promotion, outdoor advertising, etc. However, broadcasting can be quite expensive. Consequently, expanding one's distributorships is a favored option for maximizing exposure. Several companies interviewed utilized more than one broker-distributor, each catering to different market segments.

The competition obviously varies according to the kind of product, but generally, other American exporters or local subsidiaries of European food firms were the biggest obstacle to boosting sales, particularly when the consumer item was higher quality and more pricey. There are yet no major promotional campaigns by third country competitors, despite Argentine's receptivity to familiar stereotypes of Swiss chocolate, French wine, and so forth.

Considering recently increased tariffs to help stem trade losses, is the current import boom sustainable? The consensus among those already through the gateway -- invest more in the near term due to steadily increasing sales, but it will be another 2 to 3 years before the Argentine market is really secure. National policy has yet to be proved durable through this interim period when domestic farmers are clamoring to protect their turf from imports, and further steps to relieve pressure on the currency may be taken due to the balance of trade shortfall, making foreign goods less competitive. Nevertheless, as the private sector eyes growth trends over the past one-and-a-half years, they remain highly bullish on Argentina.

For more information, contact Diane Dolinsky at (202) 690-1886 or Ron Croushorn at (202) 720-1667.

Product Spotlight: Almonds

Agricultural Trade Highlights' product spotlight continues this month with a look at exports of almonds. Since 1978, U.S. almond shipments have nearly tripled. With fiscal 1992 exports reaching \$591 million, strong global demand and U.S. almonds dominating world trade, U.S. almond exports are projected to rise, with sales exceeding \$750 million by the late 1990's.

Almonds are a major U.S. agricultural export success story. According to the USDA's Economic Research Service (ERS) U.S. production grew more than three times from 149 million pounds (shelled basis) in the 1970-71 growing season to an estimated 490 million pounds for the 1991-92 growing season. Exports grew at an even more rapid pace expanding more than 5 times from 68 million pounds to more than 377 million pounds of almonds in the same time period. This makes exports vital to the U.S. almond industry. Exports now account for 76 percent of U.S. production—up from 45 percent in 1970. In dollar value, U.S. exports grew 13 times from \$43 million in FY 1970 to \$591 million in 1992. Sophisticated growing practices and international marketing efforts led by Blue

Diamond, a grower's co-operative, and the California Almond Board make the United States, the dominant almond supplier of the world. The U.S. market share of global almond exports (including EC intratrade) doubled from 33 percent in 1971 to 69 percent in 1991.

The Major Markets: A Study in Contrast

More than two thirds of U.S. almond exports go to its two major markets: the EC and Japan. These two markets contrast sharply in their almond consumption usage, competitive pressures, and marketing requirements. In fiscal 1992, \$333 million (56 percent) of U.S. almonds were shipped to the EC; this was slightly less than the peak \$342 million delivered in 1988. (See

Note: For the purposes of this analysis, almonds include shelled, unshelled, and prepared and preserved (snack food). Most measures of almond exports do not include almond snack food, so they tend to under report almond trade. Almond trade statistics cited by FAO and ERS include shelled and unshelled almonds only.

greybox for definition of almonds). However, international marketing specialists at the California Almond Board explained that yearly variations in almond sales are typical because the buying cycle for almonds is longer than one year.

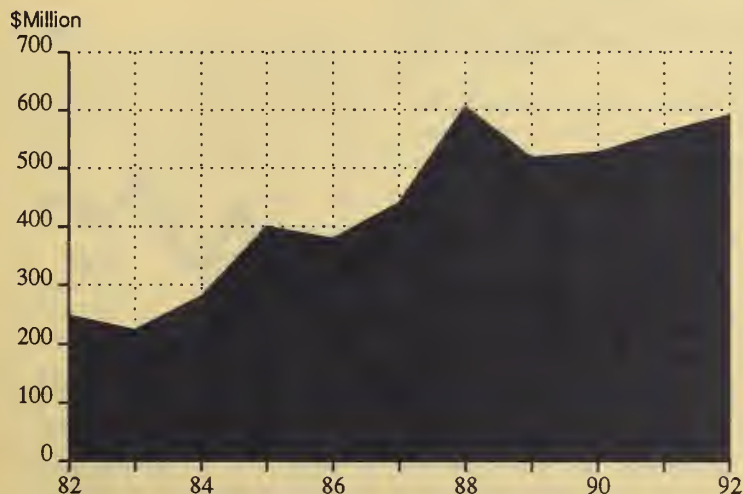
The EC is not only a major importer but also the second leading exporter of almonds. According to FAO statistics, the EC share of world almond exports in 1990 was 24 percent or \$160 million. This makes the EC a distant second to the U.S. which, in 1990, claimed 71 percent of global almond exports. Spain is the primary EC exporter and producer of almonds—shipping two-thirds of EC almond exports in 1990. In fact, the EC's world market share has been steadily declining—dropping from its peak world market share of 52 percent in 1972.

There is a long tradition of almond consumption in the EC. Almond trees are native to the Mediterranean nations of Greece, Italy, Spain, Portugal and Morocco. The bulk of almonds are used by food manufacturers for confectionery products such as marzipan or bakery products containing almonds or almond paste. New products such as breakfast cereals containing almonds have also emerged. Approximately 70 percent of U.S. almond exports are used by food manufacturers. The balance is consumed as snack foods by consumers.

Germany: Leading Nut Importer

Germany is the leading importer of almonds from the U.S. In 1991, U.S. almonds sales to Germany reached \$151 million, or more than one quarter of total U.S. overseas shipments. This was the highest level since 1988's \$173 million. This year, sales slipped to around \$137 million as Germany

U.S. Almond Exports Rise to Almost \$600 Million in Fiscal 1992



....Almonds

faced a recession, and pent up demand in eastern Germany for small ticket luxury items such as confectionery and bakery products fell. Despite fluctuation in demand, California Almond Board officials view Germany as a major market for U.S. almonds. This view is supported by a recent FAS analysis which ranked Germany as the second best market prospect for U.S. almond exports over the next three to six years. The Almond Board officials note that shipments to Germany are probably under reported because transshipment of almonds delivered through Rotterdam are not counted as exports to Germany.

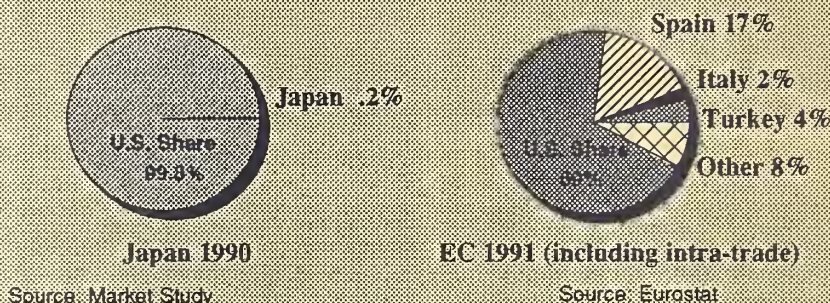
Not Just a Nut

Deeply set consumption patterns of traditional almond-containing food products is one reason why Germany is a leading almond market. Many Germany pastries contain almond paste in the filling. Others such as bienenstich (bee sting), a custard filled pastry, are coated with a layer of sliced almonds. In the confectionery arena, almonds are used in chocolate bars and for marzipan. Marzipan is the major use of almonds. It is made from a mixture of ground almonds and sugar which is sometimes coated with chocolate. The paste like confectionery is molded into various shapes such as fruits. Marzipan consumption peaks during holidays such as Christmas or Easter. During the Christmas holiday marzipan displays of German fairy tale scenes with marzipan animals are often created by parents. Marzipan is also exported world wide.

Spanish Nuts ...

Spain is the second leading producer of almonds, after the U.S., and is also a major consumer. According to FAO statistics, Spain's 1990 almond export market share was 16 percent and accounts for more than one half to two thirds of all EC almond exports. Despite Spain's role as the number two world producer, it is also the eighth largest U.S. market. In fact, a new record for U.S. shipments to Spain was set this year. Fiscal 1992 sales to Spain were \$21 million dollars--up 36 percent higher than in 1991.

U.S. Almonds Reign in Major Markets

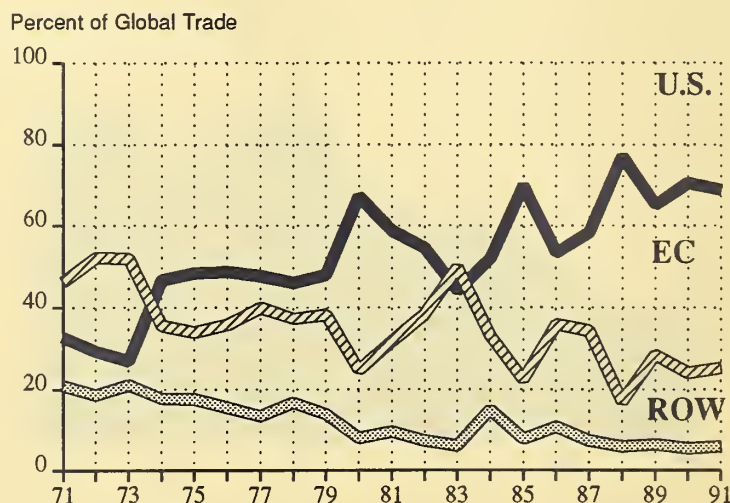


One reason for record U.S. shipments to Spain, are Spanish almond production fluctuations. Weather-induced production problems through frost and drought cause sharp variations in production. Less than 15 percent of Spanish almond acreage is irrigated. The lack of water, according to U.S. almond experts can have a significant impact on tree yield. Another reason is the sharp price differential between U.S. almonds and the more expensive Spanish almonds. Part of this has been attributed to exchange rate problems with the Spanish peseta gaining against the U.S. dollar in the past few years.

Spanish consumption habits are similar to Germany's, especially with marzipan. Approximately 65-70 percent of domestic consumption is attributed to the confectionery industry. The balance went to snack almonds. Domestic consumption for the 1992 Spanish marketing year (September 1992 - August 1993) is estimated by U.S. agricultural officials in Madrid to be 40,000 metric tons on a shelled basis.

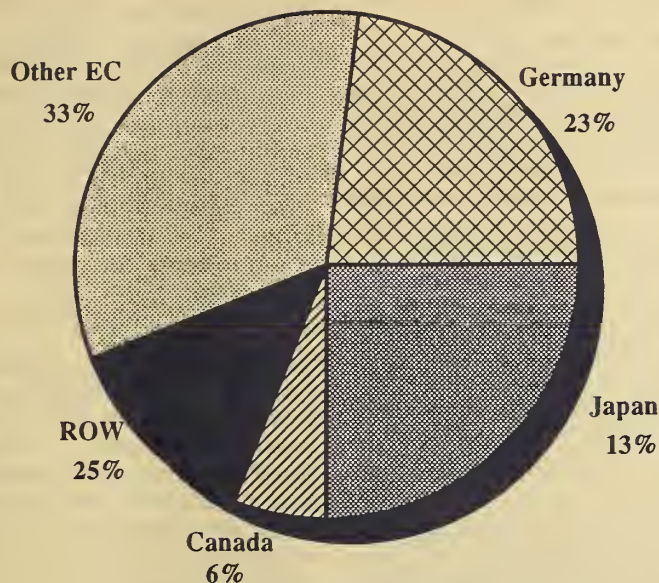
The major difference between Spain and Germany is the snack food and tapas bar market. Spanish consumers tend to snack on nuts a lot more than their counterparts in Germany and the U.S. The California Almond Board

U.S. Dominates Global Almond Trade



....Almonds

Distribution of U.S. Almond Exports FY 1992



Total Export Value FY 1992: \$591 Million

Percentages are Rounded

reports that Spain is a major customer of retail pack nuts. Another major area of consumption is in the tapas bar where various appetizers (known as tapas) including almonds are served. For the bar owner, price is the primary factor in purchasing decisions. This favors U.S. almonds since they have a price advantage over domestic almonds.

Lower imports from the U.S. are predicted by the Spanish almond industry because of two factors--an expected smaller price differential between U.S. and Spanish almonds, and a much larger Spanish almond crop. This would allow Spanish marzipan producers to follow their preference for Spanish almonds. Despite reports from Spain about a reported taste difference between U.S. and "Mediterranean" almonds, the California Almond Board, and individual Spanish sources indicated that there is no taste difference. Regardless of any perception of difference, Spanish sliced almond and flour processors prefer U.S. almonds because of their uniformity and low breakage.

Japan: A New Market Created

Japan is the second largest national market for U.S. almonds, receiving \$79 million worth in fiscal 1992. This represents 13 percent of 1992 U.S. almond shipments. Japan has no domestic production of almonds and the U.S. supplies virtually 100 percent of Japan's almond imports. This is a major success story for U.S. exports and USDA's Market Promotion Program (MPP).

Blue Diamond entered Japan nearly 30 years ago in 1968 when the Japanese had never heard of almonds, and created the \$70 - 90 million annual market for U.S. almonds. Blue Diamond's successful entry strategy was to focus on Japan's highly innovative food manufacturing industry and to distribute its Blue Diamond brand consumer products through a linkup with Japanese Coca Cola distributors. In a market where almonds were unknown to consumers, Blue Diamond and the California Almond Board felt that it was more cost effective to work with the food manufacturing industry to create almond products that would appeal to consumers. An

example of a major success story was the development of a baby sardine almond snack food for the Japanese school lunch program. This was an effort to increase the calcium content of school children's diet. The sardine almond snack has proved to be so popular in the school lunch program that it was introduced into the Japanese retail market with the assistance of MPP funds with great success.

Blue Diamond expanded from the snack nut market into the larger rice cracker market with Almond Nuggets, a whole almond kernel baked inside a spicy rice cracker, and Otsumami Country, a mix of French-fried whole almonds, green peas, rice crackers and sliced almonds in a rice cracker coating. Other almond products developed specifically for the Japanese consumer are almond tofu, soy-flavored almonds, Almond Peptide (for stomach ailments) and almond sausage. According to Blue Diamond's Almond Facts, Japanese food manufacturers developed over 100 almond products in 1990. Clearly, product innovation has been a success for generating increased consumption of almonds in Japan.

Japan remains the top medium-term market prospect for U.S. almond exports according to Blue Diamond and FAS marketing analysis. Other growing Pacific markets are Thailand; Korea, where 1992 sales set a record of more than \$17 million; Hong Kong where shipments quintupled between 1988-92 to \$7.5 million; and Australia where sales exceeded \$7 million in 1992.

New Markets on the Horizon

Part of the long term strategy of the almond industry, according to the California Almond Board, is to identify and enter new markets. This strategy serves the dual purpose of expanding the overall market for American almonds, and discourages potential future competition from other national almond producers by raising the entry cost. A well established U.S. almond presence will be difficult to dislodge. Major new markets targeted by the Almond Board and/or Blue Diamond are

....Almonds

Singapore, Hong Kong, Taiwan, Thailand, China, India, Hungary, former USSR, Chile, and Mexico. The Asian Pacific Rim is viewed as having the best overall potential because of rising discretionary incomes, strong economic growth, lack of market barriers, and lack of significant domestic production due to climatic constraints.

The California Almond Board particularly likes prospects in India because recent trade liberalization has opened the door for almond imports into a major nut consuming country. Nuts, particularly cashews, and dried fruit are consumed in large quantities as a protein alternative to meat. Almond consumption in India, unlike the rest of the world, is primarily in inshelled form. Cultural beliefs and health concerns are positive driving forces for greater almond consumption.

According to the Almond Board, the Chinese market also offers great potential for the future. Following its strategy of early market entry, the Almond Board cites the recent expansion of western-style food manufacturing industry and continued economic reform policies as a reason to enter China now. Blue Diamond cites a similar "early entry" strategy for Eastern Europe and the former USSR. Specifically, the Almond Board identified Hungary as the best market pros-

pect in Eastern Europe because of well established bakery and confectionery food manufacturers, and the most open market in Eastern Europe.

More New Markets: Mexico

Blue Diamond views NAFTA as a great aid to ongoing efforts to expand sales to Mexico, especially to the growing Mexican middle class. The Almond Board is currently analyzing its Mexican market approach. Unlike India, where established almond consumption patterns could be studied for a retail approach, almonds will be introduced to Mexican consumers through food manufacturers. Almonds will slip into the consumer market through familiar bakery and confectionery products.

Summary

The U.S. almond industry is a singular success story rising from 33 percent of the global almond export market in 1971 to around 70 percent today. Its only major competitor in world markets is Spain, and even Spain is importing U.S. almonds to meet its domestic needs. The only other potential competitor is Chile. Almond trees with their particular climatic needs, can only be grown in certain areas. Chile is the only potential climatic zone where almonds are not currently grown. The California Almond Board

views Chile as a potential competitor on the world market that bears watching.

Active marketing efforts led by Blue Diamond and the California Almond Board have successfully led to U.S. penetration of existing almond markets such as the EC and India, and led to successful introduction of almond products to markets where almonds were previously unknown such as Japan. New markets being targeted for the future are India, Hungary, China, Mexico, and Chile.

The continued success of U.S. almond marketing efforts have led almond exports to rise from \$41 million in 1971 to \$591 million in 1992. Long-term innovative marketing strategies combined with progressive government-industry cooperation are leading the way towards a dynamic future with almond shipments expected to rise past the \$750 million level by the late 1990's.

U.S. Market Promotion Funds Help Boost Almond Exports

In order to assist U.S. companies actively exploring the export market, FAS administers a pool of funds under the Market Promotion Program (MPP) to enable participants to undertake short term market research and market development. Moneys are distributed under a matching fund program to industry cooperators for both branded and generic product promotion. MPP helped to develop global markets for U.S. almonds.

MPP Funds FY 1992: \$5 Million

U.S. Almond Exports FY 1992: \$591 Million

Major Countries Where MPP Activities Carried Out:

Japan Korea Taiwan

Germany India Hong Kong

Mexico Canada Australia

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Competition in the Global Marketplace:

The United States and the European Community (EC) are by far the world's largest exporters of agricultural products. Both rely heavily on many of the same regions in the Northern Hemisphere for the majority of their export revenues. In some cases, they are also each other's best customers, especially when it concerns high-value products.

What products generate the greatest export earnings for the United States and the EC? What world regions do they rely heaviest on for the majority of their sales? To what extent are they competing for the same consumer's pocketbook? The first in a series of feature articles addressing these questions, this article begins by examining U.S. and EC global exports by product mix and pattern of trade. Follow-up articles will examine the world's major importing countries and the extent of U.S.- EC competition in those key markets. In addition, the market for consumer foods, the largest and fastest growing category, will receive special attention in the series.

Product Mix Often Overlaps

World agricultural exports (excluding intra-EC trade) rose 24 percent from 1984 to 1990 to stand at \$211 billion. In terms of value, the United States and EC combined account for 37 percent of these exports worldwide. While the United States remains the world's largest exporter, the EC has all but closed the gap during the past few years. In 1990, the United States accounted for 19 percent, while the EC's share rose to 18 percent. As recently as 1984, their shares of world trade were 23 and 14 percent, respectively. The reason for this development is clear. EC exports are weighted toward the rapidly expanding trade in consumer foods, whereas U.S. exports are still largely composed of bulk commodities.

U.S. and EC export profiles can be evaluated in some detail by separating agricultural products into five groups and further subdividing these groups into bulk, intermediate, and consumer-oriented categories. The following five product groups were used in this analysis: grain and feed (G&F); oilseeds and products (O&P); dairy, livestock and poultry (DL&P); horticultural and tropical products (H&TP); and cotton, tobacco and seed (Other). Using this framework, it is possible to evaluate a country's export focus in some detail. Table 1 provides a snapshot summary of the results for 1990.

Clearly the United States has the advantage when it comes to *bulk commodities* with its abundant arable land base and low costs of production. In 1990, U.S. exports totaled \$20.6 bil-

EC trade figures used in this article exclude intra-EC trade, which was valued at \$110 billion in 1990. While this adjustment increases the complexity of compiling statistics, it offers the advantage of providing a more accurate picture of global competitiveness outside the EC trade bloc. Many of the statistics in this article do not match previous releases by U.S. government agencies due to this adjustment. The source of this article's statistics is machine readable data compiled by the United Nations Statistical Office, which are maintained and manipulated by FAS software programs. At the time of this writing, 1990 statistics were the most current figures available.

lion, or 4.7 times the value of EC exports. A large portion of U.S. export revenues comes from animal feed components while the EC mainly exports grains for further processing into consumer foods. The U.S. and EC export focus overlaps when it comes to wheat (G&F group), where the EC

achieved significant export expansion during the late 1980's as production and surplus stocks grew. Wheat followed by barley account for more than 80 percent of EC G&F exports. About half the value of all U.S. bulk grain exports are made up of corn with another third in wheat. Despite major losses in the bulk oilseeds group (U.S. exports slipped from \$6.2 in 1984 to \$3.9 billion in 1990), the U.S. position clearly remained undisputed. The United States mainly ships soybeans whereas the EC largely exports rapeseed and groundnuts. The bulk H&TP exports consist mainly of tropical products such as tea, coffee and cocoa beans, and natural rubber which for the most part are not produced by either the United States or the EC. The Other group is largely made up of cotton and tobacco. In most years, the United States shipped more cotton than tobacco (\$2.8 versus \$1.4 billion in 1990), whereas the EC shipped more tobacco.

With growing surplus production in certain key commodities and relatively

U.S. and EC Exports to the World in 1990 (\$millions)						
Product Groups	Bulk Commodities		Intermediate Prod.		Consumer Foods	
	U.S.	EC	U.S.	EC	U.S.	EC
G&F	\$12,344	\$3,217	\$2,500	\$3,080	\$577	\$2,528
O&P	\$3,881	\$47	\$1,798	\$2,059	\$31	\$118
DL&P	na	na	\$2,736	\$1,695	\$3,522	\$7,720
H&TP	\$106	\$621	\$616	\$2,115	\$6,653	\$13,275
Other	\$4,821	\$487	\$575	\$407	na	na
Totals:	\$20,612	\$4,371	\$8,226	\$9,335	\$10,782	\$23,641

....An Overview of the U.S.-EC Rivalry

efficient processing industries, the EC has successfully kept pace with the United States in the *intermediate product* category during the past several years -- even maintaining a slight lead in some of those years. In 1990, U.S. and EC exports were valued at \$7.9 and \$9.4 billion, respectively. As in the case for bulk commodities, U.S. intermediate G&F and O&P shipments are weighted toward animal feed components, while EC exports are oriented toward foods for human consumption. The U.S. mainly exports protein meals (i.e. from soybeans) and other by-products (i.e. corn gluten feed) of the grain and oilseed milling industry, whereas the EC's big ticket items are starches, flours, and vegetable oils. With respect to the DL&P group, about half the value of all U.S. exports are made up of hides and skins, whereas the majority of EC revenues usually come from the sale of live animals, hides and skins, and wool. In the H&TP group, refined sugar is the major export item for both. In 1990, U.S. refined sugar and honey shipments totaled \$352 million, whereas EC exports of refined sugar alone were valued at \$1.8 billion. Planting seeds fall into the Other group, with U.S. and EC exports valued at \$575 and \$407 million in 1990, respectively.

The EC continues to dominate in the *consumer foods* category. Given its diverse heritage of fine cuisines and specialty products, EC suppliers have successfully promoted their consumer food products around the world. EC exports totalled \$23.6 billion in 1990, or just over twice that of U.S. shipments. The average annual increase in the value of U.S. consumer food exports has recently remained above that of the EC's (15% versus 10% during the 1984-90 period). In the G&F group, U.S. and EC export focuses overlap: the leading items are bakery products and breakfast cereals. During the past several years, beef has been the major U.S. DL&P export item (it was valued at \$1.5 billion or 40% of the total in 1990) with poultry meat running a distant second. In 1990, the major EC exports were dry milk and cream (\$1.7 billion), cheeses (\$1.3 billion), beef (\$1.2 billion) and pork (\$.9 billion). The H&TP product group generates the largest revenues

for both the United States and the EC. During the past several years, the major U.S. sales items were fresh fruits, followed by tree nuts, fresh vegetables, processed fruits and vegetables and juices, whereas wines followed by confectionery items and processed vegetables were the major sales items for the EC. These products accounted for roughly half the value of U.S. and EC H&TP exports in 1990.

The U.S. and EC Each Have Considerable Stake In The Top Regional Markets for High-Value Products

U.S. and EC export profiles can also be evaluated by examining trade patterns to 13 major world regions for each of the three product categories (Figures 1-3). In addition to the markets of North America and Western Europe, the United States and the EC also rely on the Far East, Eastern Europe and the former USSR (EEurope/USSR), the Middle East, and North Africa for most of their export earnings. The remaining world regions (i.e. the Caribbean, Central America, South America, Sub-Saharan Africa, South Asia, and Australia/Oceania) play only a minor role in the overall picture. Figures 1, 2 and 3 identify the regional markets which accounted for roughly 90 percent of the value of U.S. and EC exports by commodity category in 1990.

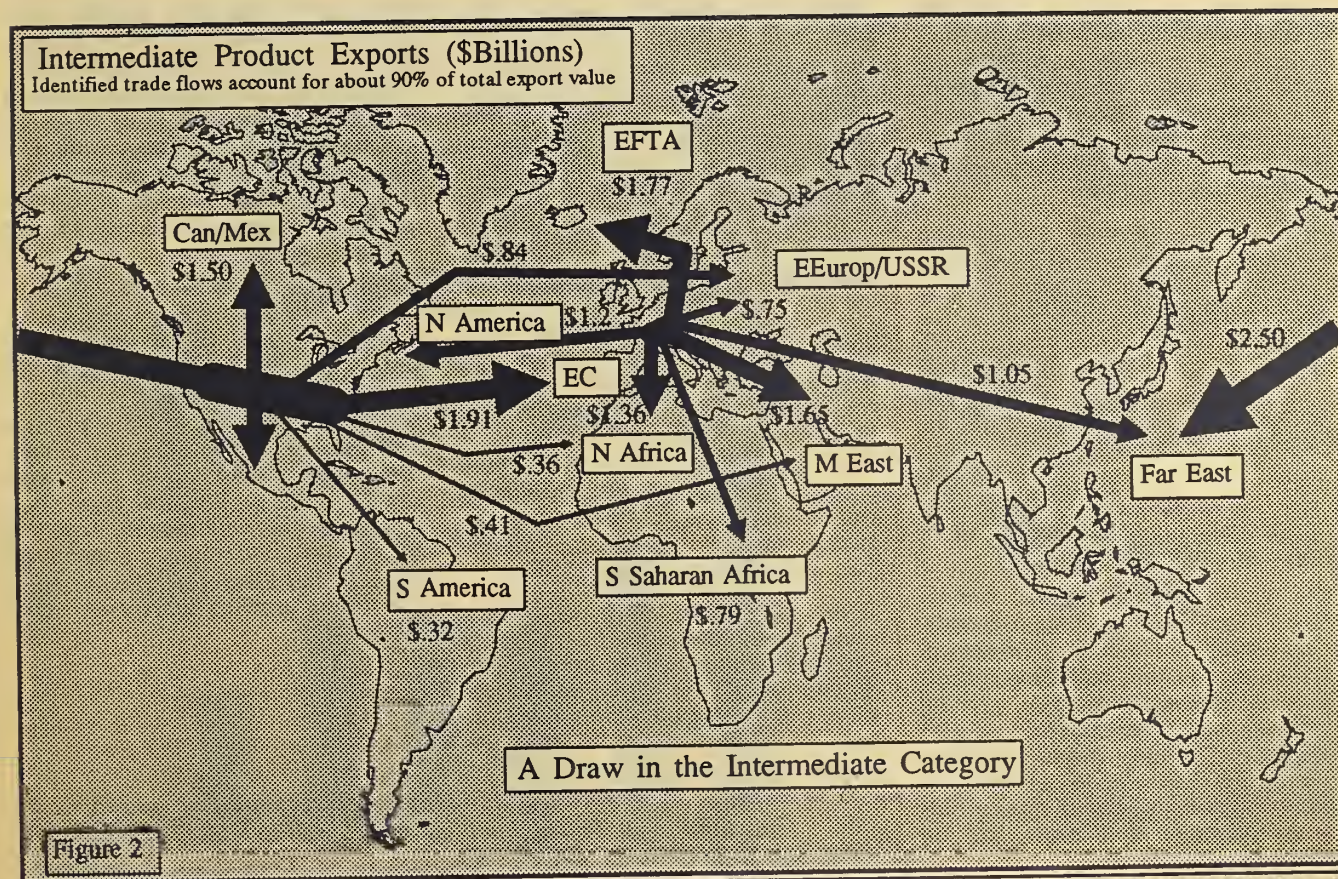
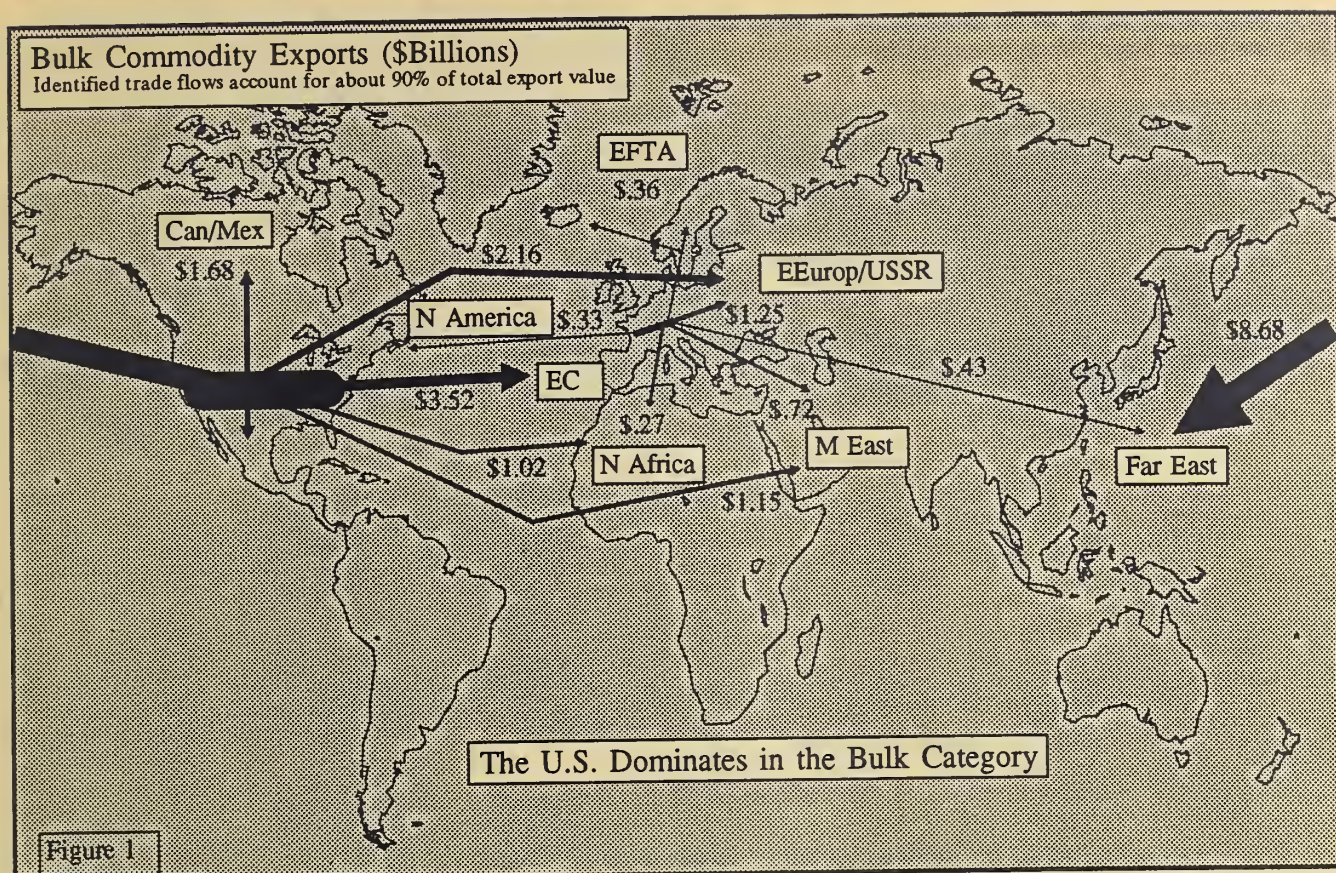
Transportation costs, export credits and subsidies, and trade barriers heavily influence the regional distribution of U.S. and EC *bulk commodity* trade. While their interests generally do not overlap, both have considerable stake in the former USSR's grain market. Lines have also been drawn in the Middle Eastern and North African grain markets where the United States maintains a slight lead. The top three U.S. markets since 1984, the Far East, the EC, and EEurope/USSR, accounted for 42, 17 and 10 percent of U.S. sales in 1990, respectively. Following on the heels of Canada/Mexico, the Middle East and North Africa took fifth and sixth place, accounting for a combined 11 percent of U.S. trade in 1990. The EC's top three bulk commodity markets since 1984 were EEurope/USSR, North Africa, and the Middle East, which accounted

for 29, 18 and 16 percent of EC sales in 1990, respectively. Although the value of EC sales to the Far East remain very small compared to that of the United States, the Far East jumped from being the EC's seventh to fourth largest market during the 1984-90 period.

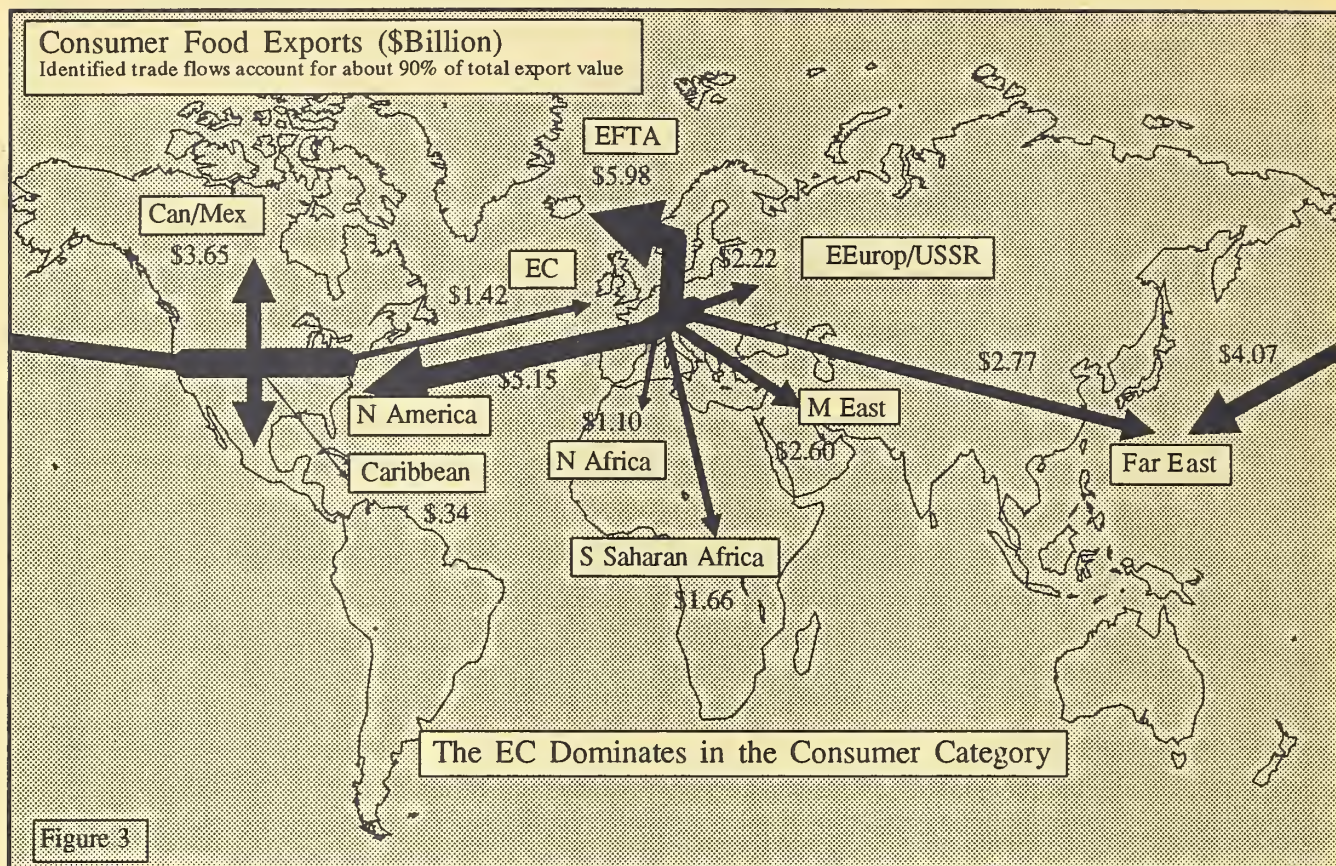
The United States and the EC have considerable stake in each other's top markets for *intermediate products*. Canada/Mexico and EFTA markets are the only exceptions where there appears to be little head-to-head competition. For several years, Canada/Mexico has been the United States' third largest market, while EFTA is usually the EC's largest. Here, proximity and economic interdependence play a large role. Following EFTA, the EC's next two largest markets are typically the Middle East and North Africa, respectively accounting for 18 and 15 percent of the EC's total in this category in 1990. In the same year, U.S. exports to both regions were one-fourth that of the EC's. The EC also has considerable stakes in the Far East, the United States' top market from 1988 to 1990, where the value of EC exports rose on average 18 percent each year from 1984 to 1990 reaching somewhat less than half of U.S. exports to the region. Starch and refined sugar were largely responsible for this upswing in EC export revenues. U.S. and EC interests are evenly matched in EEurope/USSR, where record growth since 1984 (19% on average) helped the United States gain a slight lead for the first time in 1990. U.S. trade to this region has been quite volatile. The trade expansion recorded from 1988 to 1990 was almost exclusively due to expanding trade with the former USSR (mainly Russia). EC exports are more evenly split between Russia and Eastern Europe.

Interestingly enough, the United States and the EC also depend heavily on each other's markets for sales. The EC is the United States' second largest market with sales totalling \$1.9 billion in 1990, whereas the United States has been the EC's top single-country market for many years with sales totalling \$932 million in 1990. Feeds and fodders followed by (up until 1988) soybean meal accounted for more than half the value of U.S. intermediate

U.S. & EC Exports to Major World Regions, 1990



U.S. & EC Exports to Major World Regions, 1990



product sales to the EC. With the elimination of the soybean meal market, sales of live animals and planting seeds have taken on greater importance. Starches followed by olive oil are the two largest EC exports to the United States accounting for nearly 60 percent of sales in 1990.

Income levels, economic growth, demographic change, and new consumer preferences heavily influence the pattern of trade for *consumer foods*. The expansion now underway centers on the wealthy or rapidly-growing economies of North America, Europe, and the Far East. From 1984 to 1990, the value of U.S. and EC exports to these regions grew on average at double digit rates. EEurope/USSR has also emerged as an important market in recent years, especially for the EC.

The EC's foothold in the United States' top markets is considerable. U.S. dependence on the regional markets of the Far East and Canada/Mexico has continued to grow, and by 1990 accounted for a remarkable 71 percent of U.S. consumer food exports worldwide. EC sales to these two regions is also significant, having grown at an especially rapid rate to the Far

East (17% on an average annual basis from 1984 to 1990). Japan is by far the largest Far Eastern market for both. In 1990, EC exports were only 30-percent lower than those of the United States in the Far East. On the other hand, EC exports to Canada/Mexico, a major U.S. market, were a full two-thirds lower than those of the United States. The United States has only a minor presence in the EC's top markets. The EC's two largest markets have historically been EFTA and North America (largely the United States). In 1990, they accounted for 25 and 22 percent of total EC consumer food sales. Overall, the EC's exports are spread across more regions than U.S. exports, and remain largely unchanged in several regional markets, namely the Middle East, Africa, and EEurope/USSR.

While the balance of trade in consumer foods between the United States and the EC clearly favors the EC, both depend heavily on each other's markets for sales. The EC has historically been the United States' third largest market with sales totalling \$1.4 billion or 13 percent of U.S. world sales in 1990. The United States has been the EC's top single-country market for

many years with sales totalling \$3.9 billion or 17 percent of EC world sales in 1990. Tree nuts followed by processed fruits and vegetables and fresh fruit have accounted for more than half the value of U.S. sales to the EC. Wines followed by beers and processed vegetables are the largest EC exports accounting for nearly 47 percent of 1990 sales.

Final Remarks

Consumer foods is the largest and fastest growing category in agricultural trade. It accounted for 42 percent of the value of world exports in 1990, and if (as expected) trends continue, sales should exceed 50 percent of the total in the next few years. Follow-up articles will examine U.S. and EC competition in Japan, Canada and Mexico, and EEurope/USSR, some of the fastest growing markets for consumer foods.

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The ASEAN and Australia:

As part of our occasional series on emerging regional markets for U.S. high-value consumer foods, Agricultural Trade Highlights takes a look at the Pacific Rim's newest stars: the ASEAN (Association of Southeast Asian Nations) and Australia. While still small, for the past several years shipments to these areas have grown faster than to any other market in the Pacific Rim. We sent Mike Woolsey to the region to investigate the reasons behind the recent sales gains and to determine the potential for future growth. The following interview provides a summary of his findings.

ATH: What was the purpose of your trip and which countries did you visit in the Pacific Rim?

Woolsey: During the past several years, the Pacific Rim has accounted for nearly half the growth in U.S. exports of consumer-oriented agricultural products and FAS predicts even further gains in sales to the region over the next three to six years. While Japan and the Four Tigers are the largest consumer foods markets in the Pacific Rim, the ASEAN markets, particularly Thailand, Malaysia, and Indonesia, are the fastest growing. I visited these ASEAN markets, as well as Australia, another rising star in the region, to meet with importers, retailers and other trade officials to find out what's behind the sales gains and to discover what U.S. exporters can do to

realize the full potential of each market.

ATH: What is the overall potential of these markets and what are the best products for U.S. exporters?

Woolsey: U.S. consumer foods have tremendous potential in the ASEAN and Australia. Annual shipments to the ASEAN, including the Philippines, are already approaching \$300 million, with growth averaging nearly 25 percent during the last five years. The three ASEAN markets I visited accounted for nearly all this growth. Consumer food sales to Australia are expected to exceed a record \$100 million in 1992, rising by 25 percent from 1991. Many people consider Australia as a competitor rather than as a market. But this year U.S. agricultural sales (including bulk and intermediate products) "down under" will exceed

Note: In *Agricultural Trade Highlights*, Singapore is considered one of the Four Tigers of Asia, along with Hong Kong, Taiwan, and South Korea, even though it is a member of the ASEAN. The *ATH* ASEAN market is composed of Brunet, Indonesia, Malaysia, the Philippines, and Thailand.

sales to all of Eastern Europe by 50 percent.

Our sales gains to the ASEAN are primarily due to rapidly rising incomes and subsequent lifestyle improvements that are literally sparking a revolution in food buying habits. People are seeking new taste sensations through high-quality imported foods - and foods from the U.S. are often considered high-quality from the start. Currently, the most popular U.S. products are fresh fruits, particularly apples, grapes and oranges, processed fruits and vegetables, and snack foods. Other consumer-ready products with good growth potential include beef, nuts, and sauces.

In contrast to the ASEAN, the macroeconomic environment in Australia closely resembles the rest of the post-industrial world, with high but flat or slowly rising incomes. These incomes finance a high demand for high-quality foods. Australian tastes also resemble those in the west. The most popular U.S. products include tree nuts, processed fruits and vegetables such as frozen sweet corn and strawberries, snack foods, and canned salmon.

ATH: It sounds like there's a growing taste for U.S. foods in these markets.

Woolsey: There really is. In the ASEAN it's important to consider just how dramatic these income and lifestyle changes are and how that affects food consumption. The mainstays in traditional ASEAN diets are the starchy foods, primarily noodles and rice. With their newly gained incomes, people have a strong desire to try more flavorful foods. In response to this demand, western-style supermarkets that feature imported foods

Record U.S. Consumer Food Exports to the ASEAN Forecast in 1992



....Rising Stars for U.S. Consumer Foods in the Pac Rim

are springing up all over the ASEAN. Most ASEAN consumers have only recently visited a supermarket for the first time so it's still an event for them to go shopping there. It's exciting to see and U.S. foods are a big part of the story.

An additional boost to the demand for U.S. foods is the growing number of consumers who travel to the U.S. and develop a taste for U.S. foods while on vacation. Importers and retailers in all three markets indicated that this is a big and rising factor in the demand for U.S. foods.

Australians, on the other hand, have always had western-style tastes and are familiar with U.S. foods. Therefore, products that sell well in Australia tend to be either innovations or improvements on established foods. Pringles potato chips, for example, are selling well because they tend to have a longer-shelf-life and are more convenient than competing domestic chips in Australia. Produce buyers for retail chains in Australia are successfully promoting U.S. citrus and strawberries as superior products with strong sales results. Another example is bakery products from the EC. The Europeans recently introduced a full range of pies, cakes, and cookies in Australia which are high-quality and attractively packaged. Despite a wide variety of Australian bakery items available in the supermarket, Australia's imports of EC bakery products exceeded a record \$20 million last year.

ATH: What are some demographic trends affecting sales in these markets?

Woolsey: There are a couple of important trends affecting sales in the ASEAN. The first is an emerging middle class where there is a lot of pent-up demand for new high-quality foods. These consumers - particularly those currently entering their prime income earning years - view money a lot differently than their parents. Many want high quality products and they are willing to pay for them - even at the expense of savings.

Now, consumer foods for the most part have been initially targeted at the very small upscale segment, and I found most ASEAN retailers still consider these shoppers their primary customers. But the middle and even lower income consumers are increasingly becoming important. While in Jakarta I was able to tour several supermarkets on the weekend when most Indonesians do their shopping. I discovered that the most activity by far was in markets that-from what I was told-targeted the middle and lower income consumers. In one there were twenty check-out aisles packed 6 or 7 deep with shoppers pushing baskets filled with imported foods, everything from Washington apples to California canned fruits and juices. From what I gather these shoppers will typically visit the supermarket just once every 1 or 2 months -but as their incomes grow so will their trips to the market. The story is much the same in Malaysia. One merchandiser in a very modern western-style supermarket in Kuala Lumpur told me that more than half his business comes on the weekend when his store is packed with moderate income consumers who journey in for the day from the rural areas.

The other important trend is the growing number of women in the workforce which is raising the demand for convenience foods. Frozen foods, such as french fries, are a growing item in the ASEAN markets, as are prepared meals. In urban areas such as Jakarta and Bangkok, the demand for convenience food is tremendous - almost half of all food in Bangkok is consumed away from the home, increasingly at western-style fast-food restaurants such as McDonalds. The McDonalds in Jakarta is reportedly the largest grossing McDonalds outlet in the world.

This trend is also affecting sales in Australia where the growing number of working women has resulted in less rigid meal times, which encourages snacking. Total snack food sales--both domestic and imported--in Australia are growing 28 percent annually, with sales of salty snacks alone reaching \$450 million last year.

Finally, another important consumer demographic development that could affect sales in the future is in the ASEAN, where the segment of the population most eager to try western foods is the teenagers and younger. These consumers represent a large chunk of the population--nearly 40 percent of the ASEAN population is aged 15 or under; in the U.S., this age group accounts for just 21 percent of the total. As these ASEAN teens age and earn higher incomes, their purchases of western foods should also grow. Right now they are primarily interested in western-style snacks and fast food. One importer in Thailand told me about a growing complaint among Thai adults that their kids are always nagging them to go to McDonalds--the parents are less enthusiastic about U.S. fast food so they wait outside while their kids eat. But anyhow, the fact that these young devoted fans of U.S. food comprise such a large share of the population should bode well for U.S. exports in the future.

ATH: Who are our competitors in these markets?

Woolsey: Not surprisingly, Australia sees the ASEAN as a natural market and are targeting these countries aggressively across a broad range of consumer foods. For instance, the Australian Meat and Livestock Commission is currently conducting an attractive in-store promotion for their beef in supermarkets throughout the region. With prices at roughly half that of U.S. beef, their campaign is tempting. Knowledgeable buyers in the region still consider U.S. beef as the best in the world - ASEAN retailers applaud the fine consistent grading our beef offers. But with the higher price we're going to have to be more aggressive in the market to keep our product's image clearly differentiated from the competition. The Australians are reportedly now offering limited quantities of well-marbled grain-fed beef that rivals USDA Choice.

Additional competition comes from U.S. firms sourcing out of Australia to service the ASEAN market. These include Sara Lee cakes, Heinz sauces, Kraft dairy products, Mars candy and Kellogg's cereals.

....ASEAN and Australia

Horticultural Products Lead U.S. Consumer Food Exports to the ASEAN

Product	1987	1988	1989	1990	1991	1992F
....\$Million....						
Fresh Fruit	12.7	20.9	30.6	34.3	41.9	77.5
Processed Fruits and Vegetables	11.2	14.5	24.0	27.0	31.0	45.0
Snack Foods (excl. nuts)	8.6	14.4	20.7	23.0	21.5	41.5
Dairy Products	27.4	51.3	20.9	10.6	33.4	37.0
Red Meats	4.6	4.7	7.4	8.8	9.3	11.1
Other	22.2	29.1	33.7	43.4	51.2	37.9
Total Consumer Foods	86.7	134.9	137.3	147.1	188.3	250.0

Finally, domestic manufacturers are also interested in claiming a greater share of the supermarket shelf. These products obviously have a cost advantage over imports from the U.S. and elsewhere but quality control and an unsafe image for many products are continuing problems.

ATH: What role have promotions played in the rising sales?

Woolsey: Promotions are playing a very important role because so many of our products are priced higher than the competition. In that environment you need to remind the consumer the product is different and worth the extra cost. These are also critical because so many of our products are new, requiring a change in diet - this is difficult without a promotion.

In-store promotions, particularly product demonstrations, appear to be effective for new products. A produce merchandiser for a supermarket in Malaysia told me about a promotion he did for U.S. grapefruit last year. He was concerned about the potential for grapefruit because it is considered a sour product where Malaysian consumers prefer sweet fruit. The first promotion did not include a product demonstration and did not generate much interest. The second, however, did offer the product sampling and cutting demonstrations and was a real success. This season he hopes to carry Florida grapefruit regularly.

As another example, in Australia, a produce manager told me his in-store display for California strawberries is so successful that he continued the promotion this past season despite the decision by our strawberry industry to stop funding activities in Australia. California strawberries tend to be sweeter than the domestic product and the in-store campaign is helping spread the message.

Another successful promotion in Australia involved Pringles potato chips, which were just introduced last year. At first, it would appear that there would be no market for an imported chip in Australia considering the wide variety of domestic chips available. But Proctor & Gamble went in with a heavy media blitz, positioning the product as a more convenient fresher-tasting alternative. As a result Pringles has been a smashing success - with sales in the first year garnishing 9 percent of the chip market. The importer I spoke with told me that they expected just a 3 percent share.

Finally, importers in the ASEAN pointed to menu promotions by the U.S. beef industry as a major reason for the recent growth in beef sales in the supermarket. The promotion involved educating consumers about the additional flavor and tenderness U.S. beef offers compared to competing products. After enjoying the product while eating out consumers will often look for it in the supermarket for home use. Beef sales have shown par-

ticularly strong growth in Malaysia this year. For the first eight months sales are up by more than one-third from last year, and should easily set a record of more than \$2 million by year's end.

ATH: Is the growing concern about health that we see in so many markets around the world affecting food demand in the markets you visited?

Woolsey: In general, the more developed the economy the more awareness there is about how diet affects health. So among the markets I visited the concerns are greatest in Malaysia and Australia and less so in Thailand and Indonesia.

In Malaysia the trend toward more healthful eating is fairly new and retailers and manufacturers serving the market are just now catching on. Most of the supermarket displays had some health message attached to the product. An Australian firm is successfully promoting a pasta line called "Nutrafibre", featuring an "instant high-fibre lasagna." U.S. nuts, such as almonds and pistachios, are now being promoted as health products and sales so far in 1992 are more than twice sales last year, and are forecast to hit a record \$2 million by year's end. Other popular U.S. foods promoted as healthful products include raisins and other dried fruit (with 1992 sales forecast at a record \$4.5 million), and Del Monte "extra lite" canned fruit, also posting record sales.

....ASEAN and Australia

In Australia, the healthful eating trend is also affecting food consumption but there are exceptions. For instance, the importer for Pringles told me the poorest selling Pringles chip by far is the "lite" product.

ATH: What are some of the barriers to our products in the region?

Woolsey: The barriers vary between markets but in general tariffs remain high on many consumer food imports. In Thailand, they are typically 60 percent though the Thai government has said they may be reduced to around 30 percent soon. Tariffs in Malaysia and Indonesia are generally lower though for most products range from between 20 and 50 percent. Perhaps even more important, however, are the non-tariff barriers. In Thailand, each new food import must be approved by the Thai Food and Drug Administration and this process can take more than a year. In Indonesia, many imports require a health certificate that must be renewed every 3 months and delays are common.

But of the barriers U.S. exporters can help alleviate, a major one is that many new foods need to be introduced with an education and awareness campaign to ensure success. For instance, retailers in Malaysia told me one hindrance to expanding U.S. beef sales is that most people don't know how to grill a steak - most will buy beef thinly sliced for traditional recipes that involve stir-frying or stewing. This lack of awareness is also hurting sales of microwaveable products, which

haven't taken off despite the spreading ownership of microwave ovens. An important food information and awareness outlet in the ASEAN is the print media, in particular the lifestyle type sections in newspapers and new women's magazines popping up throughout the ASEAN. People are eager for new recipes and will look to these publications for them.

Another education issue involves handling of imported perishables from the import to the retail level. Items such as apples and grapes are still fairly new to these markets, and there is still a lot of misinformation on the proper handling and storage required for a high-quality arrival at retail. For some items, retail prices could be significantly reduced with an aggressive educational effort aimed at improving the distribution of produce. One retailer told me that video training is particularly effective for this.

An additional barrier might be traditional uses or perceptions for a food that limit sales growth. For instance, fruit is traditionally considered solely as a dessert item in the ASEAN. However, U.S. fruit promotions are successfully expanding perceptions of fruit as a snack food.

Finally, in Australia, there is a widespread campaign going on to get people to buy domestic food, linking the idea with keeping jobs at home. One firm that is importing U.S. berries for repack as frozen product, told me that irrespective of quality or price differences, they will buy Australian berries

whenever they can, purely out of sentiment. Many repackers, particularly those handling tree nuts, will distort the origin of their product by stating on the label "made from both domestic and imported product."

ATH: What advice would you give U.S. companies who are considering exporting to this region?

There are couple of important keys to succeeding in the ASEAN. One is to become attuned to variations in consumer tastes and preferences in the region and to package and promote in ways that cater to them. For example, one reason apple exporters are doing well in Indonesia is because they are successfully meeting a preference many Indonesians have for small apples - roughly half the size of most apples marketed in the U.S. These Indonesians consider these apples a good value - particularly for school lunches. Market research, taste testings, and product samplings are important tools in discovering these preferences.

Another key is patience and a willingness to consider a developing market's special needs in the short-run. Many importers I spoke with told me that U.S. suppliers are often unwilling to work with them, for instance to ship mixed loads. The extra costs required to meet these special requests now will likely pay off in the long-run as consumer incomes grow along with loyalty to U.S. product.

Sharp Rise in U.S. Consumer Food Exports to Australia Expected in 1992

Product	1987	1988	1989	1990	1991	1992F
.....\$Million.....						
Tree Nuts	10.5	10.9	14.1	16.0	17.9	20.7
Snack Foods (excl. nuts)	3.2	4.4	4.0	6.6	8.1	10.9
Frozen Fruit and Vegetable Products	5.5	6.2	7.4	6.6	7.0	10.0
Dried Fruit	2.0	2.3	3.0	4.1	5.2	5.5
Other	23.9	34.0	43.3	44.9	50.1	63.9
Total Consumer Foods	45.1	57.8	71.8	78.2	88.3	111.0

Trade Policy Updates

EC Reaction to Recent Breakthrough in U.S.-EC Trade Negotiations Mixed

Though most EC Member States have welcomed the recent entente between U.S. and EC trade negotiators and view the breakthrough as a step in the right direction, there remains a sense of uncertainty and caution throughout the Community. There is near unanimous praise for the willingness of the U.S. to exempt the new CAP reform compensatory payments from the scheduled subsidy cuts and agree to an oilseeds acreage commitment rather than a production commitment. While the media have characterized the general mood as "guardedly optimistic", concerns over the details of the agreement and the impact it will have on specific commodities are widespread. The most vehement discontent comes from French, and to a lesser extent Belgium, who assert that the agreement is not compatible with the recently adopted CAP reform package. The French have threatened to veto any GATT accord that exceeds CAP reform. Similar displeasure has been voiced by Ireland, concerned over the implications of such an agreement for its beef and dairy sectors, and Spain, for its oilseeds sectors.

South Africa Raises Tariffs on Poultry Imports

Effective November 6, South Africa's Board of Trade and Industry raised the tariff on whole and part chickens. The higher tariff seeks to protect the domestic poultry industry from low-priced imports during the upcoming holiday season when the industry makes its annual profit. The new tariff will likely be sufficiently high to assure that no chicken imports can compete. Similar action against other agricultural products is anticipated because the protective role of the agricultural marketing boards (which, at one time, controlled production, marketing and imports) is being replaced by tariffs due to restructuring of the South African import regime. Although a member of the GATT, tariffs on agriculture products are not bound.

U.S. Successfully Concluded GATT Article XXVIII Negotiations With the CSFR

Effective Jan.1, 1993, the Czechoslovakian Federal Republic (CSFR) will reduce tariffs on the following U.S. agricultural export products -- in shell and shelled walnuts, soybean oil, chewing gum, food preparations, whiskeys, tobacco refuse, and other minor products. These lower duties result from bilateral tariff negotiations under GATT Article XXVIII. In addition, Initial Negotiating Rights were obtained for these items, as well as for corn. Other terms of the agreement call for the CSFR to bind all re-negotiated and unchanged tariffs except for wines, and apply additional reductions resulting from any Uruguay Round settlement.

EC Commission Discusses Plans For Legislation Covering Imports of Fresh Poultry Meat

During bilateral consultations on November 3 between the USDA and the EC Commission (DG-VI) on 1992 legislation, the EC explained it intends to follow the process used for red meat in establishing a list of slaughterhouses in third countries that are approved to export fresh poultry meat to the EC. This will involve: establishing a list of third countries that satisfy the EC's animal health requirements; and then developing a list of slaughterhouses in those countries that are approved for export. The EC expects to make the determination of the animal health status of third countries in the next few months. The EC also hopes to adopt public health legislation on poultry before the end of the year which will incorporate the concept of system equivalence. Third countries will likely be asked to provide guarantees that equivalent conditions exist. It could take up to two years to develop lists of approved plants; national rules will continue to apply in the interim.

EC Turkey Meat Producers Seek to Restrict Imports

According to a report from FAS/Bonn, EC turkey meat producers reportedly plan to ask the EC Commission to withdraw the GATT binding for seasoned turkey meat. Apparently this decision was initiated by the French industry with reluctant support from the British. Industry from the other Member States took a neutral but not opposing position. Current U.S. exports total about \$1-2 million.

...Trade Policy Updates

EC Commission Discusses Plans For Revising the Hormone Ban

In response to study of enforcement measures employed by each of the Member States, Commission officials expect the European Parliament to ask that enforcement mechanisms in the existing directives be strengthened. This could take the form of increasing the scope of residue controls to products other than red meat, tightening existing residue requirements, or providing specific legal sanctions against violators.

Market Updates

Canadian Wheat Shipments to the United States On Record Setting Pace

In the first 3 months of the 1992/93 marketing year, the United States imported 433,000 tons of Canadian wheat, 50 percent more than in 1991/92. U.S. imports of Canadian wheat would more than double the previous record amount if the present pace continues through the marketing year. During 1991/92, Canada imported less than 20,000 tons of U.S. wheat.

Canadian wheat exports to the United States in 1992/93 have been dominated by other spring wheats, in contrast to 1991/92 when durum was the primary variety exported.

Canadian Wheat Board Announces Interim Payment For 1991-92 Crop Year

On October 21, the Canadian Wheat Board announced there will be an interim payment on all wheat and barley delivered to the Board during the 1991-92 crop year. The payment will be \$Can 18 (\$US 13.50) per ton for durum wheat and \$Can 9 (\$US 6.75) per ton for all other wheat and barley. The decision to grant such interim payments signifies the Board's confidence that overall average receipts on sales for the past season were well above the initial payment levels. The interim payment is an advance on the 1991-92 final payment, and represents part of the money owed to farmers as final settlement on their grain sold by the Board. The balance of the funds will be mailed to farmers after Jan. 1, 1993, when final results of the pool are known.

Argentina Announces Proposed Measures to Increase Oilseed Production and Product Exports

The Argentine Government announced further details regarding its proposed concessions to the farm sector. In a move that appears to appease the farm sector and the oilseed crushing industry, the GOA is proposing removing the export tax on oilseeds, and then providing the crushing industry with export rebates for oil and meal. The oilseed export tax, which currently stands at 6 percent, will be reduced to zero. Under the proposed plan, oilseed exports would not receive a rebate. However, meal and oil exports will likely receive a 6-percent export rebate, resulting in the subsidy of the local processing industry. The proposed plan will have the effect of increasing oilseed production through higher returns to the farmer, and at the same time subsidizing the exports of oilseed meals and oils. Sources expect the measures, if passed, to go into effect with the new crop.

Exports of U.S. Hops Jumped to Record \$103 Million In MY 1991/92

U.S. exports of hops and hop products in marketing year 1991/92 (September-August) increased 44 percent from the previous year, reaching a record \$103 million. Most of this increase was in hop extracts, which registered a 74-percent increase from 1990/91. Germany, at \$18 million, became the dominant market for U.S. hops, displacing Brazil. Other hop markets showing growth in 1992 included the Netherlands, Thailand, Korea, Colombia, and Russia. In general, U.S. hop exports are benefiting from increased world beer production and consumption. U.S. market promotion programs in many countries, and a guaranteed loan program to Russia are among explanations for the improved export showing. Hops are grown in Oregon, Washington, and Idaho.

Tight World Rapeseed Supply Demand Situation Boosts U.S. Soybean and Meal Export Outlook

Reduced rapeseed supplies, particularly in the EC, Canada, and Eastern Europe, and down 2.3 million tons from 1991/92, sustained growth in world oilseed product demand, and the reduced value of the U.S. dollar are boosting U.S. soybean and soybean meal export opportunities. Exports of U.S. soybeans reached 2.94 million tons as of October 22, sharply above the 2.14 million tons exported a year ago. With the marketing year only 8 weeks old, exports plus outstanding sales of U.S. soybeans exceed 47 percent of projected exports for the year.

U.S. soybean exports to the EC this marketing year total 1.73 million tons, up from 880 thousand tons a year ago. Outstanding soybean sales and exports to the EC to date are nearly 3.60 million tons, up from 2.15 million tons a year ago.

...Market Updates

Fruit And Vegetable Phytosanitary And Quality Issues Discussed With EC

At U.S./EC Bilateral Consultations held November 3-5 in Brussels, EC Commission officials provided additional details on two new directives-- phytosanitary and quality inspection--which are expected to govern EC fruit and vegetable imports following implementation in 1993. Due to a delay in its acceptance by the Council of Agricultural Ministers, the phytosanitary directive will not go into effect until about mid-1993. In the meantime, member states may continue to enforce their own derogations from EC phytosanitary guidelines, although inspection facilities at internal border points are being reduced as a result of a separate directive. The delay in the phytosanitary directive's implementation may make it difficult to ship U.S. apples and pears this season into Spain, where a temporary derogation was obtained last season and will be made permanent when the directive comes into effect in mid-1993. The EC quality inspection directive, still scheduled for January 1 implementation, may provide additional assurances for complying third countries that their fresh produce consignments will not be detained. However, according to EC Commission officials, non-certified shipments will continue to receive the same import access as currently provided by the EC.

Proposed APHIS Rule On Potatoe Virus Causes Canadian Concern

APHIS soon will issue a final rule on import restrictions of Canadian seed potatoes to stem the spread of PVY-N virus from Canada. The pending rule would not allow Canada access to the U.S. market for Canadian seed potatoes, because not all Canadian cases of PVY-N have been properly explained. A binational APHIS/Agriculture Canada panel has been working toward resolving this issue since early 1992. At that time, Canada was told the final rule would address many of their concerns, especially with respect to seed potatoes originating on Prince Edward Island, the major seed potato production region in Canada. Earlier this week, the GOC delivered a demarche stating its concerns about the final rule to the State Department and APHIS. As a result, APHIS, FAS, and USTR met with the Canadians on October 27, and decided to have further technical discussions next week to try to resolve the issue.

The Dutch Resume Importation of U.S. High Quality Beef

U.S. high-quality beef was re-introduced into the Dutch market during a tasting at a prestigious restaurant in Amsterdam on October 9. Participants included representatives from the Dutch meat-wholesale trade, the hotel-restaurant trade and the press. The event was the result of one container load of hormone-free U.S. beef being permitted into the Netherlands. The reaction of those present was very favorable with the belief that U.S. high-quality beef will soon regain a share of the Dutch market. Further purchases are currently underway. In January 1993, U.S. high-quality beef will again be presented, and this time at the USA pavillion at Horecava, a major hotel and restaurant show in Amsterdam.

BSE On The Rise in the United Kingdom

The number of confirmed cases of Bovine Spongiform Encephalopathy (BSE--"mad cow" disease) in the UK continues to rise. The cumulative number of BSE cases, through the end of September 1992, stood at 20,987, and the total for 1991 was 25,024. However, a significant fall in the number of affected animals in the 2 and 3 year age group seems to indicate the 1988 statutory ban on the feeding of ruminant-derived protein is containing the epidemic. The Ministry of Agriculture, Fisheries and Food (MAFF) is confident its research findings remain consistent with the contaminated-feed theory explaining the epidemic in the UK.

French Wheat Sale to Egypt

According to a trade contact, France sold 260,000 tons of wheat to Egypt at a price of \$112.00 FOB. Sale of an additional 340,000 tons is being negotiated. This wheat sale, the first the French have made to Egypt in a year and a half, was made possible by a special EC restitution level of approximately 85 ECUs; the restitution level for other destinations is currently in the range of 74-76 ECUs.

...Market Updates

Taiwanese Quarantine Inspectors to Visit Apple Production Areas

Two plant quarantine inspectors are scheduled to visit the United States later this month as part of Taiwan's continuing effort to establish new plant health guidelines for imported fruits. Taiwan recently unveiled its proposed guidelines for the codling moth pest. Host fruits for the codling moth in the United States include apples, pears, and stone fruit. APHIS considers a number of the guidelines, which Taiwan has proposed to implement with the 1993 crops, to be unjustified and/or not practical and has formulated an alternative approach. FAS and APHIS have recommended to Taiwan officials that the two sides work first to establish a protocol for apples, which could be implemented as early as next year. Development of protocols for the other fruits would, under the U.S. proposal, be delayed until next year, with a view toward implementation in 1994. The scope of the upcoming industry-hosted visit will therefore be largely confined to apples, with the inspectors visiting production areas in Washington, Oregon, and California. U.S. apple exports to Taiwan, its largest offshore market, totaled nearly \$38 million in CY 1991.

U.S. Food and Beverage Companies Project \$28 Million In Sales After Exhibiting In Seoul, Hong Kong and Bangkok

Exhibitors representing everything from U.S. beef and poultry to ice cream and candy demonstrated their products at FAS-sponsored American Food Fairs in Seoul and Hong Kong and during a Sales Mission to Bangkok. The 55 exhibitors at the 3rd Seoul/American Food Fair projected 12-month sales resulting from participation to be \$15.5 million. The 33 exhibitors in Hong Kong projected \$11.4 million in sales. The 7 companies participating in the Sales Mission to Bangkok projected 12-months sales at over a million dollars.

USDA To Buy Up To 1 Million Tons Of Corn For Foreign Donation

The USDA will buy nearly one million tons of U.S. corn worth about \$100 million for donation to emerging democracies in certain Baltic states and countries of the former Soviet Union, according to Secretary Madigan. The corn shipments will help avert a potential liquidation of livestock overseas. It also could encourage a rebuilding of herds, and thus help ensure a future market for U.S. feed grains. The donations are, in addition to purchases of feed grains, under the GSM-102 credit program for eligible countries.

EC Approves Sales For 1.3 Million Tons Of EC And East European Grain Exports To The Former Soviet Union (FSU)

Press reports indicate the EC approved the first significant grain exports to the FSU under the ECU's 1.25 billion credit line announced in December 1991. More than 800,000 tons of wheat, 350,000 tons of barley and nearly 150,000 tons of corn will be supplied to Ukraine, Belarus, Georgia, and Moldova. Czechoslovakia, Hungary, and Bulgaria will supply nearly one-third of the grain under "triangular trade." The largest amount of credit, the ECU's 349 million for commodities to Russia, remains unallocated until Russia meets the three conditions the EC announced, including an "adequate guarantee" of repayment.

U.S.-EC Wine Agreement Negotiations Bog Down Again

At negotiations in Washington November 9-10, USG and EC Commission delegations made no substantive progress toward an agreement on technical issues affecting wine trade. The EC hardened its position on semigenetic terms and elevated its demand for U.S. guarantees authorizing current EC enological practices. Under current statutes and rulemaking requirements, the USG cannot accommodate either EC position. The EC made no concessions on the major U.S. market access concerns--permanent derogations for all forms of ion exchange and the establishment of objective criteria for authorization of new enological practices. The USG and EC agreed, for very different reasons, that the negotiations had moved backward rather than forward in this and the previous round of talks in late September. No date was set for future meetings, as both sides indicated they would have to consult internally on how, or whether, to proceed with talks.

...Market Updates

Poland Restricts Grain Exports, Liberalizes Imports

Poland imposed export licenses on grain, in the face of shortages caused by a weather-reduced 1992 grain crop. In addition, Poland has suspended import duties on corn and sorghum through March 1993, and established duty-free quotas for barley, wheat, and durum. A 900,000-ton quota for barley and a 600,000-ton quota for wheat is in effect through December 1992; and a 300,000-ton durum quota will run through June 1993. Since July, Poland already has purchased 100,000 tons of soft red winter wheat from the United States and more than 500,000 tons of wheat from the EC. It is not known, however, if these purchases would fall within the quota amount.

Canadian Wheat Board To Announce New Wheat Grade To Assist Exports

Faced with near record supplies of low-grade wheat, the Canadian Wheat Board (CWB) is reportedly on the verge of offering a temporary "special wheat grade" to importers. It is anticipated the upper end of wheat currently graded as feed-quality would fit into this new category, which would be adequate for milling with the addition of a minimum of higher-graded wheat. As global demand for feed-quality wheat is low relative to supply, this action should permit the CWB to compete more aggressively in lower-quality milling wheat markets.

Japan's Smaller Fish Meal and Oil Production Contributes To Outlook for U.S. Soybean Meal and Oil Exports

A significant reduction in Japan's fish catch led to a 50-percent decline in fishmeal and oil production during the July-September quarter, seriously reducing supplies for export and local consumption. Exports of fish oil are expected to reach a 20-year low in 1992/93, as a result of the shortfall in production. In addition, reduced supplies of fish meal and oil for local consumption are expected to boost consumption of soybean meal and oil. During the July-September quarter, consumption of soybean meal and oil ran 12 percent ahead of a year ago.

UK Workers Union Alleges U.S. Walnuts Unsafe

FAS/London reports that the Teamsters union, as part of a campaign to win support for a boycott of Diamond walnuts in the United Kingdom, alleged methyl bromide treatment and bleaching of California walnuts is hazardous to consumer and worker health. Methyl bromide is a commonly used fumigant in the United States. A labor dispute between the Teamsters and Diamond is behind the union campaign. The Teamsters contacted British buyers, trade journals, and a Member of the European Parliament. The California Walnut Commission provided technical information in response to inquiries from the trade press, and believes the situation is under control.

Venezuela Revises Import Regime For Imported Meat and Milk

The Government of Venezuela initiated a variable tax and sanitary certificate requirement, supplementing an existing ad valorem duty, on certain imported dairy and livestock products, effective Sept. 11, 1992. The variable tax that applies to meats is 650 bolivares per ton when world prices fall below a domestic trigger level. In addition, sanitary certificates are now required for imported meat and milk. The current ad valorem tariff on meat and milk is 20 percent. The United States exported \$1.5 million and \$5.4 million of milk and milk products, and red meats, respectively, to Venezuela in 1991. (1 U.S. dollar = 77 bolivares, November 1992)

Portugal Slams The Door On U.S. Poultry Meat Imports

In an abrupt change of policy, the Government of Portugal (GOP) decided U.S. poultry meat can no longer be imported due to the lack of a list of U.S. processing plants specifically approved for export to Portugal. In the past, Portugal had accepted poultry meat from any U.S.D.A. certified plant. Now, the GOP is maintaining this policy was in error and did not conform to EC regulations. Other EC countries developed their own lists of approved U.S. plants, and Portugal now intends to draw up its own list. Prior to this announcement by the GOP, the U.S. had been enjoying brisk sales to Portugal, exporting about \$1.7 million worth of poultry meat in the first 8 months of 1992.

...Market Updates

U.S. and Canadian Potato Industry and Government Officials Agree to Further Harmonize Fresh Grading Standards

Early this month, U.S. and Canadian potato industry officials met in Washington to seek further coordination of their countries' grading standards. As a result, informal agreement was reached on harmonizing standards on five additional grading characteristics. Both Agriculture Canada and USDA's Agricultural Marketing Service will need to formally amend their rules on grading standards to implement the agreement, but the anticipated industry support for the changes should make this a relatively simple process. Cross-border trade in fresh potatoes exceeds \$100 million each year, and is generally evenly divided between the United States and Canada. Currently, the United States is a net exporter of potatoes.

Mexico Increases Tariffs On Cattle And Beef

The Government of Mexico slapped tariffs on all cattle except dairy or breeding animals (15 percent) and beef, effective November 11. Previously, imports entered without a tariff. The duty on fresh chilled beef was set at 20 percent and the duty on frozen products was set at 25 percent. Pressures from their domestic industry and the "dramatic increase in beef imports" were given as reasons for the increase. Mexico ranked as the third largest market for U.S. beef in 1991 and the top destination for cattle. Total U.S. beef exports to Mexico for the first 8 months of 1992 reached 49,000 tons, up 21 percent from the same period in 1991. U.S. cattle exports (excluding dairy and breeding stock) to Mexico totaled almost 160,000 head during the first 8 months of 1992, up 72 percent compared to the first 8 months of 1991. The duties are expected to slow U.S. exports but no forecasts have been developed yet.

Canada Halts Russian Grain Shipments For Second Time This Year

Because payments are in arrears, the Canadian Wheat Board again has suspended grain shipments to Russia. Russia's grain agency, Exportkhleb, confirmed shipments stopped after October and that Canada also suspended government credits. Shipments and credits similarly were suspended for 2 weeks last August but resumed following debt renegotiations. The FSU imported almost 5 million tons of wheat from Canada in 1991/92 (August-July).

Brazilians Impose Compensatory Duty Against U.S. Wheat

The Ministers of Economy and Industry signed a decree fixing a compensatory duty of 27.9 percent on imported U.S. wheat arriving in all Brazilian ports. It is to be applied for 4 months. The official justification given for signing the decree was that U.S. imports threatened to cause negative impact on domestic producers. The decree is not expected to be imposed retroactively. Therefore, it is unlikely the 131,425 tons in EEP sales that have taken place so far under the current 500,000-ton initiative would be affected. However, because the compensatory duty has not been imposed on imports from other origins, it is expected to effectively preclude additional U.S. wheat sales to the Brazilian market. Canadian wheat exports to Brazil, for example, will enjoy an approximately \$15/ton price advantage over U.S. wheat as a result of this measure.

South Africa Raises Tariffs on Poultry Imports.

Effective November 6, South Africa's Board of Trade and Industry raised the tariff on whole and part chickens. The higher tariff seeks to protect the domestic poultry industry from low-priced imports during the upcoming holiday season when the industry makes its annual profit. The new tariff will likely be sufficiently high to assure that no chicken imports can compete. Similar action against other agricultural products is anticipated because the protective role of the agricultural marketing boards (which, at one time, controlled production, marketing and imports) is being replaced by the tariffs due to restructuring of the South African import regime. Although a member of the GATT, tariffs on agriculture products are not bound.

U.S. Agricultural Exports by Commodity Type

Fiscal years (Oct-Sept) 1986-1992, values in thousands of dollars

PRODUCT	1986	1987	1988	1989	1990	1991	1992	% CHANGE 1991-92
BULK COMMODITY TOTAL.....	14,455,870	14,650,403	19,360,317	22,295,358	21,785,568	17,610,418	19,556,582	11.05
WHEAT.....	3,260,510	2,879,400	4,470,267	6,020,571	4,224,046	2,856,570	4,319,227	51.20
COARSE GRAINS.....	3,743,154	3,684,436	5,116,109	7,250,439	7,971,761	5,653,145	5,659,056	0.10
RICE.....	647,507	550,635	728,969	955,826	829,505	751,944	757,799	0.78
SOYBEANS.....	4,170,534	4,205,213	5,023,942	4,085,412	3,940,192	3,464,170	4,311,430	24.46
COTTON.....	691,863	1,429,361	2,150,111	2,058,885	2,719,485	2,619,294	2,194,588	-16.21
TOBACCO.....	1,317,685	1,203,175	1,297,054	1,248,719	1,359,233	1,532,822	1,568,483	2.33
PULSES.....	202,551	270,780	210,872	269,587	320,000	329,993	218,263	-33.86
PEANUTS.....	225,224	205,186	141,989	195,751	217,504	153,210	244,601	59.65
OTHER BULK COMMODITIES.....	196,842	222,216	221,103	210,168	203,842	249,270	283,135	13.59
INTERMEDIATE TOTAL.....	6,920,194	7,275,982	8,615,566	8,874,949	8,569,981	8,492,626	9,237,737*	8.77
WHEAT FLOUR.....	225,407	206,652	170,388	254,756	202,492	200,874	162,804	-18.95
SOYBEAN MEAL.....	1,113,189	1,324,668	1,469,822	1,330,787	995,682	977,939	1,285,881	31.49
SOYBEAN OIL.....	291,755	222,947	436,813	404,369	339,002	191,823	356,225	85.70
OTHER VEGETABLE OILS.....	411,714	261,344	450,987	415,722	393,571	411,505	490,555	19.21
FEEDS & FODDERS (EXCL. PET FOODS).....	1,188,323	1,341,842	1,552,578	1,657,517	1,596,054	1,616,719	1,747,761*	8.11
LIVE ANIMALS.....	397,040	403,123	535,347	553,744	457,150	654,378	684,741*	4.64
HIDES & SKINS.....	1,444,188	1,665,549	1,834,438*	1,697,009	1,772,828	1,438,733	1,316,667	-8.48
ANIMAL FATS.....	462,585	405,392	527,904	524,329	467,976	404,260	479,527	18.62
PLANTING SEEDS.....	356,762	361,278	406,732	498,057	578,319	624,909	667,236*	6.77
SUGARS, SWEETENERS, & BEVERAGE BASES..	234,731	275,676	286,078	366,951	519,433	621,328	599,375	-3.53
OTHER INTERMEDIATE PRODUCTS.....	794,500	807,511	944,480	1,171,708	1,247,475	1,350,159	1,446,965*	7.17
CONSUMER-ORIENTED TOTAL.....	4,959,782	5,951,124	7,360,473	8,352,422	9,766,813	11,431,178	13,521,311*	18.28
SNACK FOODS (EXCL. NUTS).....	154,551	184,346	252,350	349,027	477,301	591,653	781,532*	32.09
BREAKFAST CEREALS & PANCAKE MIX.....	30,748	42,544	54,498	82,200	133,068	219,290*	196,823	-10.25
RED MEATS, FRESH/CHILLED/FROZEN.....	947,957	1,226,165	1,693,604	2,219,902	2,296,413	2,593,685	3,018,770*	16.39
RED MEATS, PREPARED/PRESERVED.....	62,931	71,875	101,230	112,355	127,761	154,438	176,904*	14.55
POULTRY MEAT.....	282,437	404,489	424,463	508,186	630,704	737,690	914,962*	24.03
DAIRY PRODUCTS.....	434,045	495,863	540,922	489,640	332,650	356,591	718,030*	101.36
EGGS & PRODUCTS.....	75,275	79,881	109,903	100,968	96,146	137,157	136,745	-0.30
FRESH FRUIT.....	803,407	935,965	1,065,708	1,112,545	1,363,196	1,522,803	1,737,141*	14.08
FRESH VEGETABLES.....	230,444	259,052	316,602	361,263	607,415	831,268	863,191*	3.84
PROCESSED FRUIT & VEGETABLES.....	578,839	680,795	811,975	968,244	1,186,418	1,354,513	1,526,755*	12.72
FRUIT & VEGETABLE JUICES.....	153,417	190,087	258,274	284,384	351,104	367,723	467,121*	27.03
TREE NUTS.....	491,589	593,690	779,721	693,607	744,938	821,566	944,828*	15.00
WINE AND BEER.....	68,378	105,746	145,907	195,839	244,900	307,159	350,521*	14.12
NURSERY PRODUCTS & CUT FLOWERS.....	60,406	64,594	80,005	99,554	173,354	194,507	200,981*	3.33
PET FOODS.....	54,490	82,902	124,241	165,460	218,146	308,871	377,665*	22.27
OTHER CONSUMER-ORIENTED PRODUCTS.....	530,870	533,130	601,068	609,250	763,299	932,263	1,109,342*	18.99
AGRICULTURAL TOTAL	26,335,846	27,877,509	35,336,356	39,522,729	40,122,362	37,534,222	42,315,630	12.74

NOTE: * DENOTES HIGHEST EXPORT LEVELS SINCE AT LEAST FY 1970

U.S. Agricultural Exports by Major Commodity Group **Monthly and Annual Performance Indicators**

	September			October-September			Fiscal Year		
	1991	1992		1990/91	1991/92		1992	1993(f)	
	-- Bil.\$ --		Change	-- Bil.\$ --		Change	-- Bil.\$ --		Change
Grains & feeds 1/	1.055	1.169	11%	12.513	14.095	13%	14.095	13.4	-5%
Wheat & Flour	0.296	0.352	19%	3.057	4.482	47%	4.482	4.5	0%
Rice	0.063	0.072	15%	0.752	0.758	1%	0.758	0.7	-8%
Feed grains 2/	0.439	0.473	8%	5.653	5.659	0%	5.659	5.2	-8%
Corn	0.380	0.401	6%	4.872	4.593	-6%	4.593	4.2	-9%
Feeds & fodders	0.157	0.177	12%	1.894	2.077	10%	2.077	2.1	1%
Oilseeds & products	0.395	0.538	36%	5.723	7.338	28%	7.338	7.1	-3%
Soybeans	0.164	0.300	83%	3.464	4.311	24%	4.311	4.1	-5%
Soybean meal	0.116	0.099	-15%	1.010	1.334	32%	1.334	1.1	-18%
Soybean oil	0.031	0.031	-2%	0.192	0.356	86%	0.356	0.4	12%
Other vegetable oils	0.031	0.045	47%	0.412	0.491	19%	0.491	NA	NA
Livestock products	0.459	0.542	18%	5.545	5.973	8%	5.973	6.2	4%
Red meats	0.201	0.273	36%	2.481	2.935	18%	2.935	3.1	6%
Hides & Skins	0.103	0.113	9%	1.439	1.317	-8%	1.317	1.3	-1%
Poultry products	0.085	0.105	23%	1.007	1.195	19%	1.195	1.3	9%
Poultry meat	0.061	0.077	25%	0.726	0.887	22%	0.887	NA	NA
Dairy products	0.041	0.078	91%	0.367	0.733	100%	0.733	0.6	-18%
Horticultural products	0.488	0.567	16%	6.020	6.844	14%	6.844	7.2	5%
Fruits & Preparations	0.180	0.195	8%	2.084	2.358	13%	2.358	2.9	23%
Vegetables & Preparation	0.098	0.123	26%	1.626	1.772	9%	1.772	2.8	58%
Tree Nuts & Preparation:	0.082	0.106	29%	0.822	0.945	15%	0.945	1.0	6%
Unmanufactured tobacco	0.010	0.074	643%	1.533	1.568	2%	1.568	1.6	2%
Cotton & linters	0.061	0.079	30%	2.619	2.195	-16%	2.195	1.8	-18%
Planting seeds	0.063	0.061	-3%	0.625	0.667	7%	0.667	0.7	5%
Sugar & tropical products	0.139	0.152	9%	1.582	1.706	8%	1.706	1.7	-0%
Forest Products 4/	0.515	0.550	7%	6.467	6.761	5%	6.761	NA	NA
Total Ag. export value	2.796	3.366	20%	37.533	42.314	13%	42.314	41.5	-2%

	-- MMT --		Change	-- MMT --		Change	-- MMT --		Change
Grains & feeds 1/	7.847	8.476	8%	95.194	101.234	6%	NA	NA	NA
Wheat	2.502	2.465	-1%	26.691	34.289	28%	34.289	33.5	-2%
Wheat flour	0.078	0.044	-43%	1.074	0.808	-25%	0.808	0.9	11%
Rice	0.178	0.226	26%	2.418	2.281	-6%	2.281	2.3	1%
Feed grains 2/	3.972	4.628	17%	51.802	50.195	-3%	50.195	51.5	3%
Corn	3.417	3.907	14%	44.496	40.597	-9%	40.597	41.5	2%
Feeds & fodders	0.943	0.966	2%	11.083	11.711	6%	11.711	11.8	1%
Oilseeds & products	1.514	2.125	40%	22.409	28.881	29%	28.881	28.3	-2%
Soybeans	0.730	1.363	87%	15.139	19.247	27%	19.247	19.3	0%
Soybean meal	0.543	0.487	-10%	4.962	6.301	27%	6.301	5.4	-14%
Soybean oil	0.063	0.065	2%	0.354	0.747	111%	0.747	0.8	7%
Other vegetable oils	0.043	0.077	81%	0.620	0.782	26%	0.782	NA	NA
Livestock products 3/	0.213	0.280	32%	2.320	2.770	19%	2.770	NA	NA
Red meats	0.065	0.079	21%	0.744	0.870	17%	0.870	1.0	15%
Poultry products 3/	0.052	0.078	50%	0.644	0.821	28%	0.821	NA	NA
Poultry meat	0.050	0.075	51%	0.614	0.787	28%	0.787	0.8	2%
Dairy products 3/	0.024	0.044	86%	0.222	0.399	80%	0.399	NA	NA
Horticultural products 3/	0.366	0.441	21%	5.048	5.951	18%	5.951	6.5	9%
Unmanufactured tobacco	0.010	0.012	24%	0.239	0.246	3%	0.246	0.2	0%
Cotton & linters	0.038	0.061	60%	1.598	1.527	-4%	1.527	1.3	-15%
Planting seeds	0.106	0.076	-29%	0.517	0.705	36%	0.705	NA	NA
Sugar & tropical products 3/	0.098	0.107	9%	1.162	1.102	-5%	1.102	NA	NA
Total Ag. export volume 3/	10.27	11.70	14%	129.35	143.64	11%	143.64	144.0	0%

1/ Includes pulses, corn gluten feed, and meal.

2/ Includes corn, oats, barley, rye, and sorghum.

3/ Includes only those items measured in metric tons.

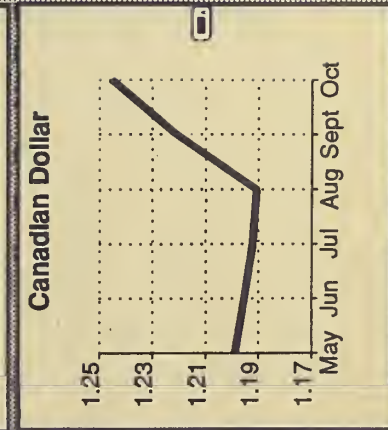
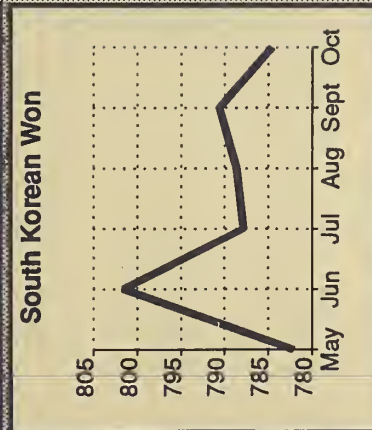
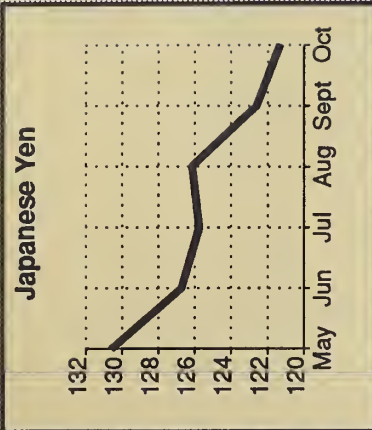
4/ Wood products are not included in agricultural product value totals.

Note-- 1993 forecasts are taken from "Outlook for U.S. Agricultural Exports," Dec. 2, 1992.

U.S. Agricultural Export Value by Region
Monthly and Annual Performance Indicators

	September			October-September			Fiscal Year		
	1991	1992		1990/91	1991/92		1992	1993(f)	
	--Bil.\$--		Change	--Bil.\$--		Change	--Bil.\$--		Change
Western Europe	0.468	0.616	32%	7.310	7.726	6%	7.726	7.9	2%
European Community	0.423	0.559	32%	6.774	7.183	6%	7.183	7.4	3%
Other Western Europe	0.045	0.058	27%	0.536	0.543	1%	0.543	0.5	-8%
Eastern Europe	0.018	0.040	125%	0.303	0.221	-27%	0.221	0.3	36%
Former Soviet Union	0.195	0.065	-67%	1.716	2.640	54%	2.640	2.1	-20%
Asia	1.044	1.234	18%	14.647	15.989	9%	15.989	15.3	-4%
Japan	0.513	0.650	27%	7.718	8.364	8%	8.364	8.1	-3%
China	0.055	0.021	-62%	0.667	0.690	3%	0.690	0.4	-42%
Other East Asia	0.318	0.406	28%	4.644	4.929	6%	4.929	5.0	1%
Taiwan	0.126	0.160	27%	1.736	1.913	10%	1.913	1.9	-1%
South Korea	0.135	0.181	33%	2.159	2.200	2%	2.200	2.3	5%
Hong Kong	0.057	0.065	16%	0.744	0.816	10%	0.816	0.8	-2%
Other Asia	0.157	0.158	1%	1.618	2.005	24%	2.005	1.8	-10%
Pakistan	0.023	0.017	-25%	0.143	0.226	57%	0.226	0.1	-56%
Philippines	0.044	0.041	-7%	0.373	0.442	19%	0.442	0.4	-9%
Middle East	0.141	0.136	-3%	1.366	1.717	26%	1.717	1.8	5%
Israel	0.012	0.018	53%	0.279	0.342	22%	0.342	0.3	-12%
Saudi Arabia	0.065	0.050	-23%	0.481	0.506	5%	0.506	0.5	-1%
Africa	0.158	0.283	79%	1.819	2.201	21%	2.201	2.3	4%
North Africa	0.106	0.112	5%	1.325	1.312	-1%	1.312	1.5	14%
Egypt	0.040	0.067	70%	0.692	0.709	2%	0.709	0.6	-15%
Algeria	0.042	0.014	-67%	0.422	0.382	-10%	0.382	0.5	31%
Sub Saharan Africa	0.052	0.171	231%	0.493	0.889	80%	0.889	0.8	-10%
Latin America	0.393	0.528	34%	5.474	6.384	17%	6.384	6.7	5%
Mexico	0.197	0.276	40%	2.872	3.653	27%	3.653	4.1	12%
Other Latin America	0.196	0.251	28%	2.601	2.731	5%	2.731	2.6	-5%
Brazil	0.018	0.007	-62%	0.271	0.143	-47%	0.143	0.1	-30%
Venezuela	0.031	0.043	36%	0.307	0.393	28%	0.393	0.4	2%
Canada	0.369	0.408	11%	4.395	4.804	9%	4.804	4.7	-2%
Oceania	0.034	0.040	18%	0.344	0.424	23%	0.424	0.4	-6%
World Total	2.818	3.349	19%	37.365	42.099	13%	42.099	41.5	-1%

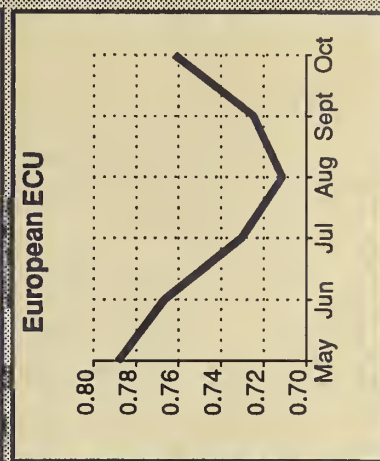
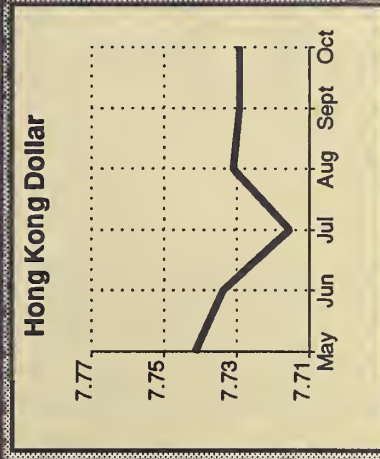
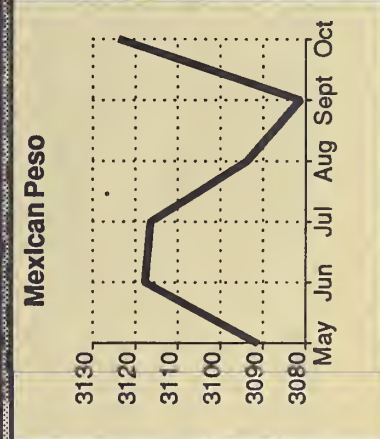
Exchange Rate Movements Of Major World Currencies Vis-a-Vis U.S. Dollar -- Daily Spot Quotations & Monthly Averages



Currencies	Current Rate 11/13/92	Month Ago 10/13/92	Year Ago 11/91	%Change Year Ago 11/91
Argentine Peso 1\	.99	.99	.99	-0.03
Australian Dollar	1.4426	1.3822	1.2531	15.12
Brazilian Cruzeiro	8512.01	6687.00	555.81	1431.46
Canadian Dollar	1.2635	1.2445	1.1295	11.86
Hong Kong Dollar	7.7310	7.7320	7.7570	-0.34
Japanese Yen	124.00	121.17	129.90	-4.54
Mexican Peso	3123.01	3114.00	3060.00	2.06
Taiwan Dollar	25.19	25.25	26.11	-3.52
South Korean Won	782.10	783.60	745.35	4.93
European ECU	.79808	.74968	.83457	-4.37
-British Pound	.6439	.5824	.5874	9.62
-French Franc	5.2920	4.9795	5.8250	-9.15
-West German Mark	1.5690	1.4660	1.7105	-8.27

1\ The Argentine Austral was recently converted to the Peso at a rate of 10,000 to 1.

NOTE: Exchange rates are daily spot quotes as of 3:00 PM Eastern Time, November 13, 1992.
Source: TEID/ITP/FAS Exchange Rate Database and Wall Street Journal.



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